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GUIDE

ON FINANCIAL ADMINISTRATION FOR DEPARTMENTS
AND AGENCIES OF THE GOVERNMENT OF CANADA


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THE HONOURABLE C.M. DRURY, PRESIDENT
SEPTEMBER, 1973



GUIDE

ON FINANCIAL ADMINISTRATION FOR DEPARTMENTS
AND AGENCIES OF THE GOVERNMENT OF CANADA

Administrative Policy Branch, Financial Management Division

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GUIDE ON FINANCIAL ADMINISTRATION FOR DEPARTMENTS AND AGENCIES OF THE GOVERNMENT OF CANADA

FOREWORD

Financial administration has always been a vital function in government; but it has assumed even greater importance in an era when rising public demand for new services has had to face the reality of resource limitations.

The purpose of this Guide on Financial Administration is to identify the objectives of the government for financial administration in departments and agencies and accordingly to direct a course of action for deputy heads to follow in discharging their responsibilities for financial administration.

Traditionally, the main objective for financial administration has been to control cash disbursements in relation to appropriations approved by Parliament. While this objective remains important, increasingly there is need for departmental and central agency managers to relate financial costs to program achievements or outputs to ensure that maximum effectiveness and efficiency are attained in the expenditure of public funds. The Guide is designed to assist managers in establishing systems of financial administration that will meet both these objectives.

As the techniques of financial administration are subject to change, the Guide will be revised periodically to reflect new requirements and the results of periodic evaluation of departmental systems. Suggestions for revisions will be welcomed, particularly in cases where departments have successfully introduced systems which could beneficially be applied elsewhere in the public service.

(C.M. Drury)

PRESIDENT OF THE TREASURY BOARD
LE PRÉSIDENT DU CONSEIL DU TRÉSOR

September, 1973

TREASURY BOARD

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POLICY ON FINANCIAL ADMINISTRATION

INTRODUCTION

The purpose of this document is to identify the objectives of the government for financial administration in departments and agencies and accordingly to direct a course of action for deputy heads to follow in discharging their responsibilities for financial administration.

Certain terms are defined immediately following the statement of policy. These are new terms, such as "payment authority", or modifications of terms previously used, such as "activity element", or common terms, such as "costs", which are defined because of their importance in understanding the directives and guidelines.

This document includes two types of requirements. The first type, identified as directives, is mandatory and identifies minimum system requirements. Deputy heads must implement requirements of this type. The second type, identified as guidelines, is not mandatory, and suggests a course of action or alternative courses of action recommended by Treasury Board. Deputy heads are normally expected to follow these courses of action, but they are free to develop and implement alternatives where there are reasons why the recommended courses of action are not appropriate for their departments.

Certain criteria have been used in identifying requirements as directives. They are considered to be mandatory:

- where they provide further details on a legislative or regulatory requirement;
- where consistency among departments is essential for purposes of central analysis or parliamentary reporting; and
- where essential control requirements are identified.

Other criteria have been used in identifying requirements as guidelines. They are considered to be optional:

- where implementation of a requirement may not always be desirable because the benefits may not justify the costs;
- where implementation may not always be practicable because of the size or nature of the operations of a department;
- where alternatives are suggested; and
- where the requirement refers only to a means of implementing another requirement.

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POLICY ON FINANCIAL ADMINISTRATION

POLICY

Deputy heads of departments and agencies are responsible for satisfying departmental requirements and the requirements of Parliament and central agencies, as expressed in statutes, regulations and other directives, for financial visibility, control and accountability through the establishment, maintenance and operation of systems of financial administration which include:

- classifications of accounts which identify the purpose of, responsibility for, and nature of resources involved in each financial transaction;*
- budgets which, in addition to forecasting cash requirements for inclusion in Estimates, acknowledge managerial responsibility for costs in relation to planned output;*
- reporting and budgetary control systems which compare actual and planned costs in relation to outputs, and actual and planned cash disbursements and commitments in relation to each appropriation, allotment or other limit;*
- accounting systems which ensure the accuracy, completeness and authority of cost, cash and commitment data, and which safeguard cash and other assets;*
- delegation of financial authorities by ministers and deputy heads in a manner which ensures an appropriate division of responsibilities in the disbursement and collection of public monies; and*
- audits which independently and systematically evaluate the design and operation of departmental systems of financial administration.*

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DEFINITIONS

Responsibility centre managers are managers with delegated authority to manage financial resources, including responsibility for determining financial requirements, controlling costs in relation to operational accomplishment, and exercising spending authority to approve charges against their budgets.

Financial officers are officers who provide support to responsibility centre managers with respect to financial administration and who, among their other responsibilities, have primary responsibility for controlling cash appropriations and allotments and for exercising delegated payment authority.

Program is a group of related departmental activities designed to achieve specific objectives authorized by Parliament.

Activities are alternative or complementary means of achieving an objective or set of objectives of a program. The term is also used to refer to the highest level of activity classification or first division of a program, normally that used in Estimates submissions to Parliament.

Activity elements are the basic or lowest levels of activity classification — they are the processes or projects carried out to attain a program's objectives, at which point there should normally be an identifiable output for which costs can be usefully and meaningfully determined. The output may be either a final output, one that improves the well-being of Canadians, or a close proxy of the final output, such as manpower training courses, or an intermediate output, such as inspections, or a supporting output, such as a purchasing or accounting procedure.

Annual appropriation is an appropriation, as defined in Section 2 of the Financial Administration Act, in a fixed amount voted from an item included in the Estimates, the authority for which lapses at the end of the fiscal year.

Allotment is a sub-division of an appropriation, approved by Treasury Board under Section 24 of the Financial Administration Act, that departments may not exceed or amend without approval of Treasury Board.

Costs are measures of resources consumed during a period of time, without regard to when ordered, delivered or paid.

Cash accounting is a method of recording transactions so that revenues and expenses are reflected in the accounts for the period when funds are disbursed or received.

Commitment accounting is the practice of recording transactions so that commitments are reflected in the accounts for the period when an obligation to make a future payment is foreseen, such as when contracts are entered into or orders are placed for goods or services.

Cost-based accounting is a method of recording transactions so that revenues and expenses are reflected in the accounts for the period when resources are earned or consumed.

Accrual accounting is a method of recording transactions so that assets and liabilities are reflected in the accounts for the period when goods are received or delivered or when services are performed.

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Financial signing authorities is a collective term used to identify spending authority, payment authority and the authority to give commitment certificates. These are authorities which are assigned by the Financial Administration Act to ministers or deputy heads of departments and those to whom they specifically delegate their authority, and which require a signature on a certificate or some other document.

Spending authority is the authority delegated by ministers and deputy heads under the Financial Administration Act to incur expenditures, and to confirm satisfactory contract performance and price under Section 27 of the Act as a prerequisite to the requisitioning of payments.

Payment authority is the authority delegated by the appropriate minister under Section 26 of the Financial Administration Act to requisition payments and authorize their charge to appropriations, after reviewing the legality of payments and the exercise of all appropriate financial controls. This authority is to be distinguished from the authority to make payments which is assigned to the Receiver General under Section 28 of the Act.

Authority to give commitment certificates is the authority delegated by a deputy head to give, before a commitment is entered into, the commitment certificate required under Section 25(1) of the Financial Administration Act.

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DIRECTIVES AND GUIDELINES

1. Management of the Financial Function

The Financial Administration Act gives Treasury Board general authority to act in the area of financial administration on behalf of the government. Except for certain responsibilities assigned by the Act to the Minister of Finance, to the Receiver General, or to the appropriate ministers, responsibility for financial administration is assigned to deputy heads of departments and agencies. They, and the subordinates to whom they must delegate their authority for managing departmental programs or portions thereof, require assistance from financial officers if they are to discharge their financial responsibilities adequately. For deputy heads and other managers to be accountable for the actions of those to whom they have delegated authority, there must be strong functional direction from the senior officer responsible to the deputy head for the system of financial administration down through successively lower levels of responsibility. This functional direction includes responsibility for ensuring that financial policies, methods and procedures are appropriate, that systems are in place to ensure that they are adhered to and that performance in relation thereto is evaluated.

DIRECTIVES

- 1.1 *Each deputy head shall designate a senior officer to be responsible for departmental systems of financial administration.*
- 1.2 *Financial officers shall design and operate systems of financial administration and exercise their functional responsibilities with a high degree of professional integrity.*
- 1.3 *The senior officer responsible for departmental systems of financial administration shall give functional direction on behalf of the deputy head to responsibility centre managers and to subordinate financial staff of these managers to ensure that financial responsibilities are being properly exercised.*

GUIDELINES

- 1.4 *The senior officer responsible for departmental systems of financial administration should:*
 - *as a member of the departmental executive group, advise the deputy head and his staff on the needs of the department in the area of financial administration and on the financial implications of their decisions both at the planning and operational stages;*
 - *advise on the application of legislative, regulatory and other financial requirements of Parliament and central agencies to his department;*
 - *direct the design, communication and maintenance of systems of financial administration;*
 - *provide guidance on the organization, staffing and training of financial units capable of providing the financial services and functional guidance required by managers at all levels; and*
 - *review performance evaluations of financial officers throughout the department made by the managers to whom these officers report.*

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- 1.5 Financial manuals, supplemented where appropriate by directives, instructions and circular letters, should be issued and maintained to ensure that all participants in departmental financial administration clearly understand financial procedures and responsibilities.*

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2. Classification of Accounts

The classification of accounts determines the manner in which financial data are identified, aggregated and reported for purposes of planning, resource allocation, management control and results evaluation. The classification of accounts is determined first, by parliamentary requirements for reporting of financial data in the Estimates and Public Accounts by appropriations; second, by the requirements of Treasury Board, which is empowered by the Financial Administration Act to prescribe the manner and form in which the accounts of Canada and the accounts of departments shall be kept; third, by the requirements of the Minister of Finance for presenting assets, liabilities and reserves in a manner which, in his opinion, gives a true and fair view of the financial position of Canada; fourth, by the needs of the Receiver General in relation to his responsibilities for maintaining the accounts of Canada; fifth, by the needs for other government-wide information as prescribed from time to time by Treasury Board; and sixth, by the needs of departmental management. Departmental classifications of accounts must meet these requirements, and in designing their classification systems, departments must recognize that there is need for consistency and comparability between detailed data to meet internal requirements and aggregate data of interest to Parliament and central agencies for the latter to be truly meaningful and useful.

DIRECTIVES

- 2.1 *Within each appropriation approved by Parliament, the departmental classification of accounts shall be a three-fold classification:*
- *first, by activity element to make visible the costs of obtaining the output or benefits to be derived from expenditures;*
 - *second, by responsibility centre to identify who is accountable; and*
 - *third, by object of expenditure to provide a means of controlling the acquisition and utilization of resources.*
- 2.2 *Departmental activity structures shall be sub-divided to the point where the basic or lowest levels, the activity elements, identify the costs of the processes and/or projects which are carried out to attain a program's objectives. This is to ensure that financial information is available wherever there is an identifiable output to which costs can be usefully and meaningfully related for purposes of determining cost effectiveness and efficiency.*
- 2.3 *Departmental objects of expenditure shall be capable of aggregation to the reporting and standard objects designated by Treasury Board and the economic objects required for governmental statistical purposes. Data on objects of expenditure are required not only for managerial control at the operating level, but also to facilitate cost and economic analysis by Treasury Board and other central agencies.*
- 2.4 *To ensure effective control and information, departmental classifications of accounts shall make provision for recording assets and liabilities, even though such assets and liabilities may not be accounted for in the central accounts nor appear in the Statement of Assets and Liabilities of the Government of Canada.*

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GUIDELINES

- 2.5 *The activities and sub-activities, which are submitted to Treasury Board for approval for use in Program Forecast and Estimates submissions, should be capable of being accurately costed by aggregating activity element costs without arbitrary allocation techniques. This is to ensure that the activities and sub-activities are satisfactory for purposes of control and accountability and provide an accurate foundation for supplementary analysis.*
- 2.6 *Administrative activity elements should be included as part of the programs and activities that they support wherever there is a direct, accurate and objective basis for cost allocation. Wherever included, they should be identified on a consistent basis within a program so that the aggregate cost of significant administrative operations or processes in the program can be computed.*
- 2.7 *The responsibility of managers should be clearly assigned in terms of activity elements so that financial accountability coincides with operational responsibility.*

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3. Budget Preparation

Budgets in government are used to determine the financial and other resources required to carry out plans assigned to departmental managers, to obtain Treasury Board and parliamentary approval of departmental programs and resource requirements, and to provide a basis for budgetary control. The Estimates, which are used to obtain parliamentary and Treasury Board approval of departmental budgets, must be submitted in the form and detail prescribed by Treasury Board in the Program Forecast and Estimates Manual and other instructions, and must be based on the amounts required to pay for services coming in course of payment during the fiscal year as required by the Financial Administration Act. Wherever meaningful for departmental operational planning and control purposes, budgets should be prepared on a cost basis to identify the resources expected to be consumed in the fiscal year, thereby permitting financial requirements to be related more directly to forecast output or benefits to be derived from the expenditures. Where budgeted costs closely approximate cash requirements, a budget prepared on a cash basis satisfies this requirement.

GUIDELINES

- 3.1 *Managers assigned budgetary responsibility should be involved in all aspects of the preparation of their budgets to ensure their commitment to the budgets.*
- 3.2 *Departments should issue budget guidelines to responsibility centre managers to initiate and direct the accurate and efficient preparation of budgets. Departments should also establish standard work-sheets for each program to assist managers in the preparation of responsibility centre budgets, to ensure the recording and retention of basic budgetary data, and to facilitate the aggregation of financial requirements at higher responsibility levels.*
- 3.3 *Budgets should be reviewed by higher levels of managements to determine that they reflect departmental and program plans and constraints, that proposals are realistic and properly justified, and that the method of computing budgeted costs, cash disbursements and other data is reasonable.*
- 3.4 *Responsibility centre budgets should be prepared wherever possible in three stages:*
 - *calculation of costs by activity elements based on anticipated output and using average unit costs for the program as reflected in the budgetary targets approved in the Program Forecast submissions;*
 - *determination of minimum costs by objects of expenditure for each responsibility centre taking into account the effect of salary commitments and other costs that are fixed or semi-fixed; and*
 - *negotiation by each responsibility centre of variances from program averages to arrive at the centre's unit costs for each activity element taking into account its ability to control costs. Where it is not possible to utilize average unit costs, the costs of each activity element should be computed by objects of expenditure.*
- 3.5 *Since costs computed for activity elements and objects of expenditure should reflect resources to be consumed, not cash needed to acquire resources, significant anticipated changes in levels of inventories of resources between the beginning and end of the fiscal year will distort costs unless budgeted for separately. Departments should budget for significant anticipated changes in inventory levels as if they were separate activity elements, so that the aggregate costs of all activity elements will more closely approximate cash requirements included in Estimates submissions.*

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- 3.6 *Where there is significant decentralization of budgetary responsibility within a program, the total of the budgets of individual responsibility centres at the lowest level of delegation may exceed the cash authority granted by an appropriation. This practice is justified because, where sub-allotments are created for purposes of decentralized cash control, lapses will occur in some sub-allotments which may not be recognized in time to permit transfer and proper utilization of the surplus funds elsewhere. In these conditions specific provision for such anticipated lapses should be made in the budgets of successive levels of supervisory managers to ensure that the total of responsibility centre budgets does not exceed the amount of departmental appropriations.*

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4. Budgetary Control

Budgetary control involves controlling expenditures in relation to spending authority granted by Parliament and Treasury Board, and controlling costs in relation to plans for operational accomplishment developed by departmental management in support of the spending authority requested. Under the Financial Administration Act, deputy heads are responsible for establishing systems to control disbursements and commitments to ensure that they do not exceed the limits imposed by the annual or other appropriations granted by Parliament and the allotments approved by Treasury Board. While there is no statutory requirement to control costs in relation to operational accomplishment, the effective management of the resources provided by Parliament requires control through the periodic comparison of actual and planned costs and outputs.

DIRECTIVES

- 4.1 *Control accounts shall be maintained, on behalf of the deputy head, by financial officers or by other officers with payment authority for each appropriation and for each allotment prescribed by Treasury Board, whether departments are operating under full or interim supply appropriations or special Governor General's warrants, so that expenditures in relation to these limits can be determined at any time.*
- 4.2 *Where payment authority is delegated to officers in decentralized locations, allotments shall be divided into sub-allotments for each such officer, and control accounts shall be maintained for each sub-allotment so that officers requisitioning payments are able to control requisitions in relation to the undischarged commitments and free balances in their sub-allotments.*
- 4.3 *To comply with the statutory requirement to keep records of commitments and to certify the availability of funds before entering into commitments, departments shall:*
- for administration, operation and maintenance expenditures, retain for each responsibility centre copies of all documents recording undischarged commitments and report the total of all such items for inclusion in periodic budgetary control reports; and*
 - for capital, and grants and contributions expenditures and for multi-year expenditures, maintain a continuing record of individual commitments by fiscal year.*

GUIDELINES

- 4.4 *Because annual appropriations are for services coming in course of payment during the fiscal year, departments should ensure that payments are requisitioned and processed promptly so that all accounts are paid in the fiscal year in which goods or services are supplied and in which funds are provided.*
- 4.5 *Cash forecasts which recognize the impact of operational and seasonal factors on cash flow should be prepared periodically in each department; a simple extrapolation of the current or prior year's disbursements will seldom provide a sufficiently accurate cash forecast.*

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4.6 Each responsibility centre manager should control the utilization of the resources in his budget through a system whereby:

- costs by activity elements and reporting objects are budgeted by period in relation to planned output;*
- actual costs and outputs are reported by period; and*
- variances between budgeted and actual costs in relation to outputs are analysed with a view to corrective action.*

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5. Departmental Financial Reporting

Financial reports display in summary form the numerous transactions that are captured in systems of financial administration. Minimum requirements for financial reporting are imposed by the need of the Receiver General for including, in the Public Accounts, information such as that necessary, in the opinion of the Minister of Finance, to show the financial transactions and financial position of Canada with respect to each fiscal year. In addition, Treasury Board may require the reporting of other information for its own purposes or for the purposes of other central agencies. Departmental reporting must satisfy these requirements, and in addition should provide such information for departmental management as is necessary for purposes of planning, budgetary control and results evaluation.

GUIDELINES

- 5.1** *Financial management reports, which periodically relate actual and planned costs to outputs, should be prepared for responsibility centre managers, for their supervisors and for staff advisers responsible for activities to provide them with the information required to control costs in relation to outputs.*
- 5.2** *Separate financial reports, which provide information on disbursements, undischarged commitments and free balances by appropriation, allotment and sub-allotment, should be provided to financial officers and other officers with payment authority to enable them on behalf of the deputy head to control cash flow in relation to limits imposed by annual and other appropriations and by allotments.*

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6. Accounting for Expenditures

Accounting systems determine the manner in which individual transactions are recorded and accumulated for purposes of financial control, reporting and analysis. The Financial Administration Act assigns regulatory authority to Treasury Board with respect to the accounting for public money and the keeping of records of public property, and empowers the Board to prescribe the manner and form in which the accounts of Canada and the accounts of departments shall be kept. The Receiver General is responsible for keeping the accounts of Canada and for receipts into and payments out of the Consolidated Revenue Fund. Deputy heads are responsible for maintaining the accounts of their departments within these constraints. Departments must ensure the accuracy and consistency of financial information through the integration of accounting records, and must ensure the completeness, accuracy and authority of financial information through adequate controls. Managerial needs for cash, commitment and cost information should be adequately satisfied without duplication through well designed and operated accounting systems.

DIRECTIVES

- 6.1 *All financial and financially related systems of a department shall be integrated with each other and with the central accounting system of the government to avoid duplication of accounting effort and to ensure the completeness and consistency of all data reported.*
- 6.2 *Departmental accounting systems shall have adequate accounting controls to ensure the completeness, accuracy and authority of all information provided by such systems.*

GUIDELINES

- 6.3 *Departments should utilize wherever possible the accounting and reporting services of the Department of Supply and Services to obtain detailed accounting information as a by-product of the recording of cash disbursement transactions.*
- 6.4 *Where a separate service organization is responsible for a departmental accounting system, or some element of such a system, the department being serviced should take whatever steps are necessary to ensure the adequacy of the products of the system.*
- 6.5 *After payment authority has been exercised, payment requisitions should be forwarded promptly and directly to the appropriate office of the Department of Supply and Services thereby expediting the processing of cash transactions to ensure that all transactions approved by a manager are included in his reports in the period to which they apply.*
- 6.6 *Departmental accounting systems should be designed to permit the periodic entry and reporting of information on undischarged commitments so that officers exercising financial signing authorities, but not maintaining detailed records of commitments, may know the amounts of undischarged commitments and free balances for each appropriation and allotment on a periodic basis.*

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- 6.7 *Departmental accounting systems should be designed to provide accurate, periodic cost information on the activity elements involved in carrying out departmental programs. Where cash disbursements are not significantly different from costs, cash information will satisfy this requirement for cost information. This requirement is to provide for relating costs to benefits; for comparing efficiency over a period of time or among similar responsibility centres; for determining the amounts to be recovered when services for which a charge is appropriate are provided to the public; and for comparing revenues recovered against the related costs. Accrual information should be entered into accounting systems to the extent it is necessary to facilitate the provision of cost information.*
- 6.8 *Accounting controls should be established over inventories of materials and equipment wherever there is need, because of the amounts or nature of the inventories, for independently controlling them, for providing information on changes in inventory levels, or for eliminating the effect of inventory changes from costs reported by the principal accounting system. Accrual information should be entered into accounting systems to the extent necessary to facilitate the maintenance of accounting control over assets.*

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7. Financial Control of Expenditures

Systems of financial control are required to ensure probity and prudence in the expenditure of public funds. The Financial Administration Act assigns authority to control the spending of public funds, within the limits provided by Parliament in appropriations, to the appropriate ministers or deputy heads, who may in turn redelegate their authority within their departments. The Act requires that three basic financial controls be exercised over charges to appropriations and payments from the Consolidated Revenue Fund. First, departments must certify, before a commitment is entered into, that there is sufficient unencumbered balance available out of the relevant appropriation or item included in the Estimates to discharge the commitment. Second, they must ensure and certify with respect to each payment that the relevant services have been performed or goods received at prices that are in accordance with contract terms or are reasonable. Third, departments must not requisition a payment that would be an unlawful charge against an appropriation, result in expenditures in excess of an appropriation or reduce the balance available in an appropriation so that it would not be sufficient to meet the commitments charged against it. For these purposes, Treasury Board has made regulations under the Act which detail financial control procedures to be used in verifying accounts and in requisitioning and making payments. In addition to procedures called for under the statutory requirements, the regulations require the deputy head to establish procedures to ensure that payments are proper charges to the allotments approved by Treasury Board. The Governor in Council or Treasury Board has also made regulations governing the assignment of Crown debts, payments under assignments and powers of attorney and the issue of cheques, replacement cheques and duplicate cheques. Managers responsible for departmental operations and financial officers responsible for the system of financial administration share responsibility for exercising financial controls as required by statute and regulations, and their differing but equally important responsibilities must be recognized in departmental systems for discharging these statutory and regulatory requirements.

DIRECTIVES

- 7.1 *Financial signing authorities shall be delegated and communicated by ministers and deputy heads in a manner and form which provide that controls on the disbursement of public money are adequately enforced through an appropriate division of responsibilities.*
- 7.2 *Spending authority and payment authority shall not be exercised by the same person for a particular payment. This is to ensure that persons having payment authority are themselves subject to an independent check in respect of their own expenditures.*
- 7.3 *Payment authority shall be exercised only when any certificate required under Section 27 of the Financial Administration Act has been provided by a person delegated appropriate spending authority.*
- 7.4 *No person shall be permitted to exercise the authorities given to a position on an acting basis unless properly designated in writing by an officer to whom the incumbent of the position reports.*
- 7.5 *No person shall exercise either payment authority or spending authority with respect to a payment from which he can personally benefit.*

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- 7.6 *Spending authority should be granted to responsibility centre managers in respect of their own budgets. Delegation of spending authority to officers in relation to their budgetary responsibility is to ensure that they have adequate authority and are fully accountable. Where other officers are given spending authority, such as that delegated to purchasing agents to place contracts and to personnel officers to hire staff, such authority is exercised on behalf of the responsibility centre managers who have budgetary responsibility. Spending authority may also be delegated to designated subordinates of responsibility centre managers as well as, where appropriate, to staff within financial offices who are independent of officers exercising payment authority.*
- 7.7 *Payment authority should be granted primarily to financial officers of the department to provide an independent check on the manner in which other officers exercise spending authority. Payment authority may also be delegated to personnel officers in respect to the payment of salaries, wages and allowances, and to other independent departmental officers in respect to transfer payments requisitioned as an operational activity.*
- 7.8 *Authority to give commitment certificates should be delegated either to managers with spending authority or to officers delegated payment authority, or to their designated subordinates, depending upon where it best meets the operational requirements of the department to maintain records of un-discharged commitments.*
- 7.9 *Authorities should be delegated to organizational positions and not to individuals. Position means an aggregation of duties and responsibilities which are discharged within an organizational structure by a designated person.*
- 7.10 *Payment authority should be delegated to positions classified at or above the Financial Administrator 2 (FI-2) level or its equivalent, except where no officer of this level is available and payments must be requisitioned by a local responsibility centre. Payment authority should not be delegated to positions where the duties consist primarily of, or require close involvement in, the verification of accounts before payment or the preparation of cheque requisitions. These two requirements are to ensure that officers with payment authority are sufficiently senior to have the experience and judgement necessary for exercising this important control responsibility.*
- 7.11 *The delegation of financial signing authorities should be authorized and communicated through a section of the department's financial manual signed by both the appropriate minister and the deputy head. Properly authenticated specimen signature cards should be used to identify the person who is the incumbent of each position to which a financial signing authority has been delegated. The section of the financial manual and the specimen signature cards should be distributed to all who have to recognize and honour a signing authority in a manner which ensures that they have access to complete and authoritative information. Deputy heads should arrange for a review of all delegated signing authorities and specimen signature cards not less frequently than once a year.*

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8. Accounting and Control of Revenue and Accounts Receivable

Accounting and control of revenue, accounts receivable, loans and advances should receive the same attention as the accounting and control of expenditures. The Financial Administration Act provides that the Governor in Council on the recommendation of Treasury Board may prescribe or alter fees and charges for services provided to the public. The Act also provides that all public money shall be deposited to the credit of the Receiver General in accounts maintained by him with banks and fiscal agents designated by the Minister of Finance, and shall be recorded and deposited in the form and manner prescribed in regulations by Treasury Board. Treasury Board has issued regulations which require individual ministers to establish the procedures to be followed and to indicate the records to be maintained to ensure that all receipts of public money are adequately controlled and accounted for within their own departments. In addition, regulations made by the Governor in Council or Treasury Board under the Act prescribe procedures for dealing with repayment of receipts, revenue trust accounts, defalcations by public officers, accountable advances and the deletion of debts. To satisfy these statutory and regulatory requirements, departments must have effective systems for claiming revenue, collecting accounts receivable, settling loans and advances and receiving and depositing public money.

DIRECTIVES

8.1 *Adequate controls, including independently maintained control accounts, shall be incorporated into the relevant operational and financial systems to ensure that:*

- *accounts receivable claims are issued wherever cash is not collected prior to the provision of goods or services;*
- *amounts claimed are correct as to quantities and prices for goods or services provided;*
- *claims are entered promptly in departmental records;*
- *prompt and vigorous action is taken to collect all claims, including amounts due from other departments; and*
- *claims are not removed from departmental records until satisfied by payment or a properly authorized deletion action.*

8.2 *All monies received as tax revenue, non-tax revenue or other receipts shall be properly safeguarded, accounted for and promptly deposited.*

GUIDELINES

8.3 *Non-tax revenue should be collected prior to the provision of goods or services, or an account receivable billing should be issued as soon as administratively feasible after the provision of goods or services.*8.4 *Departments should determine the limits of the collection actions that are both warranted and feasible on the various types of accounts receivable, examine on a regular basis all overdue accounts where such action has been exhausted, and initiate action to delete uncollectable accounts promptly.*

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- 8.5 *Similar records and procedures to those used for the normal accounts receivable of a department should be used for loans and advances since these are special categories of accounts receivable. Supplementary records and procedures may be required according to the circumstances and statutory authorities under which the loans and advances are made.*

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9. Financial Audit and Evaluation

Audits of departmental systems of financial administration are conducted by the Auditor General to meet the requirements of the Financial Administration Act including the requirement that he examine and report to Parliament on the financial statements included in the Public Accounts. In addition, because of the degree of delegation and decentralization of financial responsibilities in most departments, internal financial audits are necessary to provide deputy heads and other managers with objective information on the legality, effectiveness and efficiency of financial operations so that they can ensure the maintenance of satisfactory systems of financial administration. By reviewing, evaluating and reporting on the adequacy of all other controls, financial audit becomes an essential element of the total financial control system of a department.

DIRECTIVES

9.1 *Departments shall have financial audits performed, which include:*

- *reviewing and appraising the effectiveness and efficiency of departmental systems of financial administration, including the safeguarding of assets; and*
- *ascertaining the extent of compliance of departmental systems and procedures with financial policies, regulations and other instructions of Parliament, Treasury Board and the department or agency.*

9.2 *To ensure complete objectivity in the audit function, financial auditors shall be independent of the managers directly responsible for the activities subject to audit and shall not be used to develop and install procedures, prepare records, or engage in any other activity that they would normally be expected to review and appraise.*

GUIDELINES

9.3 *Financial audits should test the system of financial administration annually, covering each responsibility centre at least once every three years. A schedule of financial audits should be prepared each year with an annual report being submitted to the deputy head indicating actual coverage and results.*9.4 *The head of the financial audit group should be responsible to a senior officer in the department or agency who should be chairman of an audit committee composed of other senior officers having authority in the areas necessary to ensure adequate consideration of and effective action on the audit findings and recommendations.*9.5 *In departments which have an operational audit or management review function, financial audit should be organized as part of that function to eliminate the overlapping and duplication of work which might otherwise occur, and to contribute to the efficiency and effectiveness of independent appraisal activities within the department.*

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APPLICATION

This policy applies to departments and agencies named in Schedules A and B of the Financial Administration Act and to branches designated as departments for purposes of that Act.

CANCELLATIONS AND IMPLEMENTATION

This policy replaces Management Improvement Policies MI-3-66 and MI-4-66, and Circular No. 1971-124 and comes into effect immediately.

EVALUATION

Treasury Board staff will monitor and evaluate the effectiveness of the policy, compliance with the directives and the degree to which the guidelines are accepted and applied. While departments and agencies will not be asked to submit regular reports, they should ensure that the information requested in the Treasury Board evaluation checklist contained in Part III of this Guide can be readily and correctly provided whenever an evaluation of their systems of financial administration is carried out by Treasury Board staff.

INQUIRIES

Inquiries on matters included in this "Guide on Financial Administration for Departments and Agencies of the Government of Canada", should be addressed to the Financial Management Division, Administrative Policy Branch, Treasury Board. This Guide will be revised periodically to reflect changing requirements and the periodic evaluations of departmental systems. Departments are encouraged to suggest revisions to the Guide, particularly where they have successfully introduced systems which could be beneficially applied elsewhere.

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ACCOUNT VERIFICATION AND PAYMENT REQUISITION REGULATIONS

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ACCOUNT VERIFICATION AND PAYMENT REQUISITION REGULATIONS

ACCOUNT VERIFICATION AND PAYMENT REQUISITION REGULATIONS

Regulations Governing the Verification of Accounts Before
Payment, the Requisitioning of Payments and the
Charging of Appropriations

Short Title

1. These Regulations may be cited as the Account Verification and Payment Requisition Regulations.

Interpretation

2. In these Regulations,

“account” means any invoice, statement, claim, contract, journal voucher or other voucher or document claiming payment from a department on a single or recurring payment basis;

“Act” means the Financial Administration Act;

“cheque requisition” means a requisition issued by the appropriate Minister and addressed to the Receiver General for a payment to be made by means of a cheque;

“contract” has the same meaning as in the Government Contracts Regulations;

“other payment requisition” means a requisition issued by the appropriate Minister and addressed to the Receiver General for a payment to be made by a means other than a cheque;

“payment requisition” means a cheque requisition or an other payment requisition;

all other words and expressions have the same meaning as in the Act.

Application

3. (1) These Regulations apply to every charge against an appropriation and every requisition for a payment out of the Consolidated Revenue Fund.
(2) Part I applies to every expenditure made from a departmental bank account.

PART I
Account Verification

4. Every deputy head shall, to the maximum extent practicable, divide the responsibilities for functions related to
 - (a) the procurement, receiving and certification of goods and services; and
 - (b) the verification of accounts and the preparation and signing of payment requisitions.

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5. Every deputy head shall establish and maintain adequate procedures for the verification of accounts before their payment and the preparation of payment requisitions, including procedures for ensuring
 - (a) that the work has been performed, the goods supplied or the service rendered, as the case may be, and that the price charged is according to contract, or if not specified by contract, is reasonable;
 - (b) that supplies and services are in accordance with contract specifications and that all the terms and conditions of the contract have been met;
 - (c) that, where a payment is to be made before the completion of the work, delivery of the goods or rendering of the service, as the case may be, such payment is specifically provided for in the contract;
 - (d) that applicable discounts have been deducted, that charges not payable have been eliminated and that the computation of the amount payable is correct;
 - (e) that all relevant statutes, regulations, orders in council and Treasury Board directives have been complied with;
 - (f) that any specific Treasury Board instructions concerning the matter in respect of which the payment is being requested have been adhered to;
 - (g) that no expenditure in excess of an allotment or appropriation will result from the payment, nor will the balance available in the relevant appropriation be reduced so that it would not be sufficient to meet the commitments charged against it;
 - (h) that funds are immediately available in the relevant appropriation to meet the payment;
 - (i) that the payment is a proper charge against the relevant allotment and is legally chargeable against the relevant appropriation;
 - (j) that the account has not previously been paid in whole or in part;
 - (k) that where a Crown debt has been assigned or a power of attorney is in force, payment is requisitioned in favour of the assignee or attorney, as the case may be;
 - (l) that the proper expenditure coding is identified in the requisition; and
 - (m) that any other procedures necessary in relation to the payment are carried out.

PART II

Payment Requisitioning

6. (1) Every cheque requisition shall be made in a form agreed upon between the appropriate Minister and the Receiver General in accordance with the requirements set out in Schedules I and II.
- (2) Every other payment requisition shall be made in a form approved by the Treasury Board in accordance with the requirements set out in Schedule II.
7. (1) Every payment requisition shall be signed by the appropriate Minister or by a person authorized by him in writing and such signature constitutes a certificate that all the information contained in the payment requisition as required by these Regulations is accurate and that all verification procedures required by section 5 have been carried out.

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ACCOUNT VERIFICATION AND PAYMENT REQUISITION REGULATIONS

- (2) Every payment requisition shall be signed as required by subsection (1) immediately below the certification required by section 8.
 - (3) Where section 27 of the Act is applicable, no payment requisition shall be signed as required by subsections (1) and (2) unless the person signing the requisition has in his possession a certificate required by that section.
8. Every payment requisition shall be certified as follows:
- (a) where it is for a single payment, "Requisitioned for payment pursuant to section 26 of the Financial Administration Act and certified in accordance with subsection 7(1) of the Account Verification and Payment Requisition Regulations" or
"Demande de paiement aux termes de l'article 26 de la Loi sur l'administration financière. Certifié conformément au paragraphe 7(1) du Règlement sur le contrôle des comptes et la demande de paiement;" or
 - (b) where it is for a recurring payment, "Requisitioned pursuant to section 26 of the Financial Administration Act for continuing payment until advised otherwise and certified in accordance with subsection 7(1) of the Account Verification and Payment Requisition Regulations" or
"Demande de paiement continu jusqu'à avis contraire aux termes de l'article 26 de la Loi sur l'administration financière. Certifié conformément au paragraphe 7(1) du Règlement sur le contrôle des comptes et la demande de paiement."
9. Specimen signatures of all persons authorized to sign payment requisitions shall be supplied by the appropriate Minister to the Receiver General in such numbers as the Receiver General may require.
10. (1) Any payment made pursuant to a payment requisition submitted to the Receiver General shall be charged to the appropriation identified on the requisition.
- (2) The appropriation to be charged in accordance with subsection (1) shall be the appropriation identified on the payment requisition by the appropriate expenditure coding used in accordance with the procedures prescribed by the Treasury Board.
11. During the month of April, and during such other period or periods of time in each fiscal year as may be determined by the appropriate Minister, a payment requisition shall indicate the fiscal year to which the payment is chargeable.

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ACCOUNT VERIFICATION AND PAYMENT REQUISITION REGULATIONS

SCHEDULE I

Form of Cheque Requisitions

1. A department may elect to use one of three basic forms of cheque requisitions, namely,
 - (a) a separate cheque requisition;
 - (b) a cheque requisition incorporated into a departmental operating document; or
 - (c) a cheque requisition based on an account.

Separate Cheque Requisitions

2. (1) A department that elects to use a separate cheque requisition and has need for an individual departmental requisition shall provide for the recording of all the information required by Schedule II.
- (2) Where a department uses a separate cheque requisition, it shall supply the Receiver General, in addition to one copy of the requisition to be retained by him, with a further copy of the requisition or with another document showing details of the accounts in respect of which the payment is requested or showing the purpose of the payment, which further copy or other document may be used as a payment notice to be forwarded to the payee with the cheque unless arrangements have been made with the Receiver General to identify the purpose of the payment on the stub of the cheque.

Cheque Requisitions Incorporated into Departmental Operating Documents

3. A department involved in a large volume of payments of an operational nature, both on a single or recurring payment basis, may incorporate a cheque requisition form into a departmental operating document that provides for the recording of the information required by Schedule II.

Cheque Requisitions Based on Accounts

4. (1) A department that elects to use accounts as the base for cheque requisitions may use either the original account or a duplicate account for this purpose.
- (2) An account presented as the base for a cheque requisition shall be retained by the Receiver General.
- (3) Complementary information sheets shall be attached to the accounts and shall provide the information required by Schedule II that does not appear on the accounts.
- (4) Rubber stamped impressions on documents shall not be used for the purpose of complying with subsection (3).
- (5) Where voucher serial numbers are in use, they may be substituted for the requisition serial number required by subparagraph (1)(a)(ix) of Schedule II.

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ACCOUNT VERIFICATION AND PAYMENT REQUISITION REGULATIONS

SCHEDULE II
Information Required on Payment Requisitions

1. Every form of payment requisition shall provide for the following information to be recorded thereon:
 - (a) for completion by the requisitioning department,
 - (i) the name of the department and, where necessary, the organizational unit submitting the requisition,
 - (ii) the date of the requisition,
 - (iii) the name of the payee,
 - (iv) the address to which any cheque is to be sent,
 - (v) the amount of the payment and the national currency in which any cheque is to be drawn,
 - (vi) where recurring payments are involved, the effective date for the commencement of payments,
 - (vii) the certificate required under section 26 of the Act,
 - (viii) the signature of the person authorized to sign the requisition,
 - (ix) the requisition serial number,
 - (x) the relevant expenditure coding,
 - (xi) during the periods referred to in section 11, the fiscal year chargeable, and
 - (xii) any further details required by the Receiver General to enable the making of the payment and any consequent accounting for the payment that is his responsibility;
 - (b) for completion by the paying officer,
 - (i) the date of payment,
 - (ii) the cheque serial number, and
 - (iii) any further details required to be recorded by the Receiver General.

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REPAYMENT OF RECEIPTS REGULATIONS

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REPAYMENT OF RECEIPTS REGULATIONS

REPAYMENT OF RECEIPTS REGULATIONS

Regulations Re Repayment of Money Received

1. Where money has been paid to a public officer for any purpose and is in excess of the amount prescribed for that purpose, the excess amount so paid may, after it has been paid into the Consolidated Revenue Fund, be repaid to the person who paid it or his legal representatives.
2. Where money has been paid to a public officer for any purpose and the appropriate Minister is of opinion that
 - (a) the purpose for which the money has been paid has not been fulfilled, and
 - (b) no service has been rendered by or on behalf of Her Majesty,the amount so paid may, after it has been paid into the Consolidated Revenue Fund, be repaid to the person who paid it or his legal representatives.
3. (1) Where money has been paid to a public officer for any purpose and the appropriate Minister is of opinion that the purpose for which the money has been paid has not been fulfilled but that a service has been rendered by or on behalf of Her Majesty, the appropriate Minister shall, after the money has been paid into the Consolidated Revenue Fund, refer the matter to the Treasury Board with a statement of the relevant facts.
(2) Where a reference is made to the Treasury Board pursuant to subsection (1), the Board shall determine the amount, if any, that is to be retained by Her Majesty in respect of any service rendered and the balance, if any, shall be repaid to the person who paid it or his legal representatives.
4. Where money paid to the credit of the Receiver General is not public money, the appropriate Minister may order that the amount so paid be repaid to the person who paid it or his legal representatives.

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CHEQUE ISSUE REGULATIONS

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CHEQUE ISSUE REGULATIONS

CHEQUE ISSUE REGULATIONS

Regulations Governing the Issue and Control of Cheques, the Operation of
Departmental Bank Accounts and the Submission of Undertakings and Bonds
of Indemnity in Respect of Lost, Destroyed or Stolen Cheques

Short Title

1. These Regulations may be cited as the Cheque Issue Regulations.

Interpretation

2. In these Regulations

- (a) "bank" means

- (i) in respect of any matter in Canada, a bank to which the Bank Act applies and any branch thereof, and

- (ii) in respect of any matter outside Canada, an institution that, in the opinion of the Minister of Finance, carries on the business of banking;

- (b) "bank account" means a bank account established in a bank in accordance with section 9;

- (c) "cheque" means a bill of exchange, cheque or other instrument drawn in Canadian currency or otherwise in accordance with these Regulations

- (i) by or on behalf of the Receiver General on the account of the Receiver General or on such bank outside Canada as may be designated by the Minister of Finance, or

- (ii) by departmental officers against a bank account;

- (d) "Receiver General" means the Minister of Supply and Services, and "Deputy Receiver General" means the Deputy Minister of Services;

- (e) "Superintendent" means the Superintendent of Insurance appointed under the Department of Insurance Act;

- (f) words importing male persons include female persons and corporations; and

- (g) words in the singular include the plural and words in the plural include the singular.

Application

3. These Regulations apply in respect of

- (a) all payments made by the issue of cheques and the establishment and operation of bank accounts therefor, and

- (b) the issue of duplicate cheques where the originals have not been received by the payee thereof or have been lost, destroyed or stolen.

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CHEQUE ISSUE REGULATIONS

PART I

CHEQUE ISSUE — RECEIVER GENERAL CHEQUES

Preparation and Custody of Cheque Forms

4. The Receiver General shall be responsible for the procuring, numbering and safekeeping of cheque forms to be issued by him or on his behalf.

Cheques Drawn by or on Behalf of the Receiver General

5. Cheques drawn by or on behalf of the Receiver General shall bear
 - (a) the signature of the Deputy Receiver General, or
 - (b) the signature of two persons authorized by the Receiver General in writing to sign cheques on his behalf.
6. The Receiver General may authorize the signing of cheques by the use of mechanical equipment capable of reproducing facsimiles of the signatures of persons authorized under section 5.
7. Every cheque drawn by or on behalf of the Receiver General shall
 - (a) be in a form containing either the words “pay to the order of. . .” or the word “pay. . .”;
 - (b) bear the name of the payee;
 - (c) be in a specified amount;
 - (d) be signed in accordance with these Regulations;
 - (e) bear no alteration or erasure in the amount thereof or in the name of the payee; and
 - (f) bear the date of the day on which it is drawn.
8. Notwithstanding paragraph (f) of section 7, the Receiver General, where he deems it advisable, may authorize a cheque drawn by him or on his behalf to be dated on the day on which payment is due although drawn in advance, where such cheque
 - (a) is not released before the day on which payment is due,
 - (b) if released for despatch by mail, will reach the payee on the day on which payment is due, or
 - (c) is in payment of a regularly recurring obligation to an individual.

PART II

DEPARTMENTAL BANK ACCOUNTS

Establishment of Bank Accounts

9. The Receiver General may authorize the appropriate Minister to establish in a bank designated by the Minister of Finance a bank account in the name of a department or in the name of a branch or division thereof for the purpose of operating an accountable advance made from the Consolidated Revenue Fund.

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Cheques Drawn Against Bank Accounts

10. Where the Receiver General has authorized the establishment of a bank account, the senior departmental officer as authorized by the appropriate Minister shall
 - (a) designate the persons who are authorized to draw cheques against that bank account; and
 - (b) file with the bank in which the bank account is established and with the Receiver General the names and specimen signatures of such persons.
11. In respect of any bank account, the Receiver General may give such instructions as he deems necessary and, without limiting the generality of the foregoing, may direct that
 - (a) the bank on which any cheque is drawn refuse payment thereof;
 - (b) the authority of a person designated under these Regulations to draw cheques against a bank account be withdrawn;
 - (c) more than one signature be required to authenticate a cheque;
 - (d) statements of the transactions in connection with the bank account, in such form and at such times as he may direct, be delivered to him by the Minister authorized under section 9 to establish a bank account; and
 - (e) any bank account be discontinued and the balance remaining therein be paid to the Receiver General.
12. The Receiver General may instruct the bank in which a bank account is maintained to forward to him, or to some other person designated by him, at regular intervals a statement of the transactions in connection with the bank account together with all cheques drawn against that bank account that have been honoured.

Deposits in Bank Accounts

13. No money shall be deposited in a bank account except
 - (a) a remittance made by or on behalf of the Receiver General for the purpose of establishing, replenishing or augmenting a bank account may be deposited therein,
 - (b) moneys received as a refund or repayment of an expenditure or advance made from a bank account may be deposited in the bank account from which the expenditure or advance was made, or
 - (c) unless the Receiver General otherwise directs, any public money received by officers of departments outside Canada may be deposited in bank accounts established outside Canada.

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CHEQUE ISSUE REGULATIONS

PART III

REPLACEMENT CHEQUE ISSUE

Replacement of Undelivered Cheques

14. (1) Where a cheque is reported by the payee not to have been received by or delivered to him, a duplicate cheque may be issued to the payee by the Receiver General or an authorized officer on completion by the payee in a manner satisfactory to the Receiver General of
- (a) an affidavit or statutory declaration respecting the non-receipt or non-delivery of the cheque; and
 - (b) an undertaking whereby the payee agrees to return the original cheque to the issuing office should it be received by or be delivered to him.
- (2) Notwithstanding subsection (1), where the original cheque
- (a) is reported by a bank not to have been received or delivered, and
 - (b) was a cheque payable to that bank for the credit of a third party, the Receiver General may authorize the issue of a duplicate cheque without requiring the completion of the documents referred to in paragraphs (a) and (b) of subsection (1).

Replacement of Lost, Destroyed or Stolen Cheques for Payees

15. (1) Where a cheque is reported by the payee to have been lost, destroyed or stolen, a duplicate cheque may be issued to the payee by the Receiver General or an authorized officer where Her Majesty in right of Canada is secured against loss by a bond of indemnity
- (a) of a guaranty company approved by the Superintendent, or
 - (b) entered into by the payee and two personal sureties for an amount equal to double the face value of the cheque
- if the bond of indemnity is completed in a manner satisfactory to the Receiver General.
- (2) In lieu of a bond of indemnity under subsection (1), the Receiver General or an authorized officer may issue a duplicate cheque to a payee to whom that subsection applies where
- (a) the payee is
 - (i) a person employed in the public service, a person receiving a regularly recurring payment or a person in receipt of a pension or annuity payable out of the Consolidated Revenue Fund,
 - (ii) a resident of Canada and the face value of the cheque payable to him or to his order is for a sum not exceeding \$500.00,
 - (iii) a board, commission, corporation or other branch of the public service of Canada, or
 - (iv) a bank; and

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(b) the payee completes in a manner satisfactory to the Receiver General

- (i) an affidavit or statutory declaration respecting the loss, destruction or theft of the cheque, and
- (ii) an undertaking whereby the payee agrees to return the original cheque to the issuing office if it comes into his possession and to indemnify and save harmless Her Majesty from any loss or expense in connection therewith.

Replacement of Lost, Destroyed or Stolen Cheques for Holders for Value

16. Where a cheque is reported by a bona fide holder for value, to have been lost, destroyed or stolen, a cheque in replacement thereof may be issued in the name of such bona fide holder by the Receiver General or an authorized officer where Her Majesty in right of Canada is secured against loss

(a) by an undertaking that is satisfactory to the Receiver General where the bona fide holder is

- (i) a board, commission, corporation or other branch of the public service of Canada,
- (ii) a province, a board, commission, corporation or other branch of the public service of the province, or
- (iii) a municipality or a municipal board or commission; and

(b) in every other case, by a bond of indemnity completed in a manner satisfactory to the Receiver General

- (i) by a guaranty company approved by the Superintendent, or
- (ii) by the bona fide holder and two personal sureties for an amount equal to double the face value of the cheque.

Replacement of Lost, Destroyed or Stolen Cheques for Banks

17. Where a bank reports that a cheque

- (a) has been accepted by it for collection or redemption, and
- (b) has been lost, destroyed or stolen,

the Receiver General or an authorized officer may credit that bank with the amount of the cheque upon the bank submitting an undertaking, completed in a manner satisfactory to the Receiver General, to indemnify and save harmless Her Majesty from any loss or expense in connection therewith.

General

18. Any cheque issued in accordance with this Part as a duplicate of a cheque that has

- (a) not been received, or delivered, or
- (b) been lost, destroyed or stolen,

shall bear the word "Duplicate" written or printed in red ink across the face thereof.

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19. No affidavit, statutory declaration, undertaking or bond of indemnity shall be submitted under this Part unless it is submitted on or in accordance with a form of such document that has been approved by the Deputy Minister of Justice.
20. Notwithstanding anything in this Part, the Receiver General may, where in his opinion it is in the public interest, issue or authorize the issue of a duplicate cheque without being furnished with a bond of indemnity, affidavit or statutory declaration and undertaking, or undertaking, as the case may be.

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REPLACEMENT AND DUPLICATE CHEQUE REGULATIONS

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REPLACEMENT AND DUPLICATE CHEQUE REGULATIONS

REPLACEMENT AND DUPLICATE CHEQUE REGULATIONS*

* As of the date of publication of this Guide, these regulations have not yet been made. Current regulations with regard to replacement cheque regulations are contained in Part III of the Cheque Issue Regulations immediately preceding.

TREASURY BOARD

GUIDE ON FINANCIAL ADMINISTRATION

ASSIGNMENT OF CROWN DEBT REGULATIONS

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ASSIGNMENT OF CROWN DEBT REGULATIONS

ASSIGNMENT OF CROWN DEBT REGULATIONS

Regulations Respecting the Assignment of Crown Debts

1. These regulations may be cited as the Assignment of Crown Debt Regulations.
2. In these regulations
 - (a) "Act" means the Financial Administration Act; and
 - (b) "assignment" means an assignment referred to in subsection (1) of section 81 of the Act.
3. For the purposes of Part IX of the Act, the following persons are designated as paying officers:
 - (a) departmental services officers;
 - (b) area services officers; and
 - (c) regional services officers.
4.
 - (1) A notice of assignment required by subsection (1) of section 82 of the Act shall be in the form set out in Appendix A.
 - (2) The acknowledgement of assignment referred to in subsection (2) of section 82 of the Act shall be in the form set out in Appendix B.
5. There shall be submitted in connection with a notice of assignment that is not accompanied by the original written assignment or a duplicate copy of the original assignment, a notarial certificate attached to a copy of the assignment certifying that the said copy is a true copy of the original assignment in respect of which the notice is being given.
6. Where an assignment was made by a corporation, notice of the assignment shall be accompanied by the following documents:
 - (a) in the event that the affixing of the corporate seal to the assignment has not been witnessed by the president and secretary of the corporation or the president and secretary-treasurer of the corporation, a copy of the by-law or resolution of the board of directors, pursuant to which the individuals witnessing the affixing of the seal on behalf of the corporation were authorized to so witness,
 - (i) submitted over the seal of the corporation witnessed by the secretary or secretary-treasurer of the corporation,
 - (ii) certified to be a true copy of the resolution or by-law, and
 - (iii) certified to have been in effect on the date the assignment was made; and
 - (b) in the event that the assignment in respect of which the notice is being given was signed by a trustee or a liquidator, a copy of the court appointing such trustee or liquidator, as the case may be.

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ASSIGNMENT OF CROWN DEBT REGULATIONS

7. Where an assignment was made by a partnership, notice of the assignment shall be accompanied by the following documents:
 - (a) an affidavit of execution completed by the person who witnessed the signature of the partner or partners executing the assignment; and
 - (b) in the event that the assignment in respect of which the notice is being given was made in the Province of Quebec and attested to by the signatures of one or more of the partners but not all of the partners, a document establishing to the satisfaction of the Receiver General the authority pursuant to which the partner or partners that signed the assignment may make such assignment on behalf of the partnership.
8. Where an assignment was made by anyone other than a corporation or a partnership, notice of the assignment shall be accompanied by an affidavit of execution completed by the person who witnessed the signature of the person executing the assignment.
9. Where an assignment was made outside of Canada, notice of the assignment shall be accompanied by a written opinion of the legal counsel to any Canadian diplomatic, consular or trade representative in the country in which the assignment was made as to whether the assignment is valid and binding on the assignor under the laws of the jurisdiction in which such assignment was made.
10. (1) Surpluses and balances of surpluses payable by The Director, The Veterans' Land Act, to veterans pursuant to subsection (6) of section 13 or subsection (1) of section 24 of the Veterans' Land Act are a class of Crown debts within the meaning of subsection (1) of section 81 of the Financial Administration Act.
 - (2) In this section the word "veteran" has the meaning assigned to it in the Veterans' Land Act.
11. Compensation moneys, including any interest thereon, payable pursuant to the Expropriation Act for any land or property acquired or taken by Her Majesty are a class of Crown debts within the meaning of subsection (1) of section 81 of the Financial Administration Act.

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ASSIGNMENT OF CROWN DEBT REGULATIONS

APPENDIX A

TO THE RECEIVER GENERAL:

You are hereby notified that by an assignment dated the day of, 19...,
 .. (the assignor) .. has assigned to .. (the assignee) ... the sum of \$ being moneys due or
 becoming due by the Crown as represented by the Minister of to .. (the assignor) ...
 under for .. (purpose) .. dated the ... day of ..., 19..., numbered

You are required to make payment of such moneys to .. (the assignee) .. at .. (place where
 payment is to be made)

Dated this day of, 19

.....
 Signature and address of assignee

APPENDIX B

This will acknowledge that notice has been received in this office that by an assignment dated
 the of, 19..., (the assignor) has assigned to you \$
 due or becoming due by the Crown to (the assignor) under for .. (purpose) ...
 dated the day of, 19 .., numbered

.....
 Appropriate paying officer for
 Receiver General

TREASURY BOARD

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ASSIGNED DEBT AND POWER OF ATTORNEY PAYMENT REGULATIONS

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ASSIGNED DEBT AND POWER OF ATTORNEY PAYMENT REGULATIONS

**ASSIGNED DEBT AND POWER OF
ATTORNEY PAYMENT REGULATIONS**

Regulations Governing the Making of Payments
where Crown Debts have been assigned pursuant to Part IX of the
Financial Administration Act, or Debts are Payable under Powers of Attorney

1. These regulations may be cited as the Assigned Debt and Power of Attorney Payment Regulations.
2. In these regulations:
 - (a) "assignment" means an assignment referred to in sub-section (1) of section 81 of the Financial Administration Act;
 - (b) "debt" means any existing or future debt due or becoming due by the Crown on which a power of attorney may be accepted or which may be assigned pursuant to Part IX of the Financial Administration Act;
 - (c) "legal officer" means a legal officer of the Crown designated by the Receiver General to approve the acceptance of notices of assignment of Crown debts and powers of attorney;
 - (d) "notice of acceptance" means a notice from a paying officer to a requisitioning officer advising that a notice of assignment or a power of attorney has been accepted by a legal officer, the notice to be in the form prescribed in Appendix A;
 - (e) "paying officer" has the same meaning as in section 3 of the Assignment of Crown Debt Regulations;
 - (f) "power of attorney" means an authority in writing, signed by a person to whom a debt is owing, authorizing another person, named therein, to receive monies due upon the debt, and to give a valid receipt or discharge therefor;
 - (g) "requisitioning officer" means the principal officer authorized to requisition payments against a debt and "other appropriate requisitioning officer" means any other officer or person authorized to requisition payments against the same debt; and
 - (h) "supporting documents" means the documents prescribed in the Assignment of Crown Debt Regulations, or in the case of a power of attorney any document required by the Receiver General.
3. Any notice of assignment of a debt or any power of attorney received directly from an assignee or attorney by a department must be transmitted immediately to a paying officer.
4. Every paying officer shall maintain a record of all notices of assignment and powers of attorney received by him and the dates on which action is taken on them as required by sections 5, 7, 8, 10 and 15 of these regulations.
5. Every paying officer shall advise the requisitioning officer in writing of any notice of assignment or power of attorney received by him and shall obtain from the requisitioning officer:
 - (a) verification of the details included in the documents, and

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ASSIGNED DEBT AND POWER OF ATTORNEY PAYMENT REGULATIONS

- (b) such other information as the legal officer may require in order to confirm the acceptability of the assignment or power of attorney.
6. (1) Where a requisitioning officer receives a notice from a paying officer that a notice of assignment or power of attorney has been received by the Receiver General he shall
 - (a) cause all requisitions for payments against the debt concerned to be withheld until confirmation of the acceptance of the assignment or power of attorney has been notified in accordance with section 10, or notification of rejection has been received in accordance with section 8, and
 - (b) notify any other appropriate requisitioning officer that the debt is subject to a notice of assignment or power of attorney.
- (2) Every other appropriate requisitioning officer notified in accordance with paragraph (b) of sub-section (1) shall withhold all requisitions for payment as required by paragraph (a) of sub-section (1).
7. Every paying officer shall transmit each notice of assignment and power of attorney together with the supporting documents to the legal officer.
8. Where a legal officer finds that a notice of assignment or power of attorney is not acceptable he shall return it to the paying officer indicating the reasons why it is not acceptable, and the paying officer shall
 - (a) where the notice of assignment or power of attorney can be made acceptable, advise the person designated as the assignee or attorney, as the case may be, of the action needed to be taken to make it acceptable; or
 - (b) where the notice of assignment or power of attorney must be rejected
 - (i) advise the person designated as the assignee or attorney of the reasons for the rejection, and
 - (ii) advise the requisitioning officer that the notice of assignment or power of attorney has been rejected and that payments may be resumed as if no notice of assignment or power of attorney had been received.
9. Where a legal officer is satisfied that a notice of assignment or a power of attorney is acceptable, he shall endorse the document accordingly and return it together with the supporting documents to the paying officer.
10. Every paying officer receiving a notice of assignment or a power of attorney endorsed as acceptable by a legal officer shall complete a notice of acceptance and shall transmit the notice to the requisitioning officer together with the notice of assignment or power of attorney and the supporting documents.
11. Every requisitioning officer receiving a notice of acceptance shall complete and detach the acknowledgment portion of the notice and shall return it immediately to the paying officer.

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ASSIGNED DEBT AND POWER OF ATTORNEY PAYMENT REGULATIONS

12. Every paying officer who receives a properly completed acknowledgement portion of a notice of acceptance that relates to an assignment, shall comply with the provisions of sub-section (2) of section 82 of the Financial Administration Act, using the form of acknowledgement of assignment prescribed in sub-section (2) of section 4 of the Assignment of Crown Debt Regulations.
13.
 - (1) Where a requisitioning officer has acknowledged receipt of a notice of acceptance he shall transmit to every other appropriate requisitioning officer a copy of the notice.
 - (2) Every other appropriate requisitioning officer receiving such copy of the notice of acceptance shall complete and detach the acknowledgment portion of the notice and return it immediately to the requisitioning officer.
 - (3) Every requisitioning officer shall ensure that an acknowledgment is received for every copy of a notice of acceptance sent to another appropriate requisitioning officer.
14. Every requisitioning officer and other appropriate requisitioning officer holding a notice of acceptance or a copy of same shall
 - (a) affix the notice, or copy of same, to the copy of the contract, purchase order, lease or other document used for the purpose of verifying accounts before payment in respect of the debt concerned;
 - (b) maintain for each assignment or power of attorney a record of all payments made thereunder; and
 - (c) prepare every requisition for payment in respect of the debt concerned in favour of the assignee or the attorney, as the case may be.
15. Where a notice of assignment is received, the purpose of which is to make a reassignment of a debt which is already subject to an assignment, the requirements of these regulations shall be applied to the reassignment in the same manner as if it were an original assignment.
16.
 - (1) Where a power of attorney is revoked
 - (a) the paying officer shall immediately advise both the attorney and the requisitioning officer of the revocation; and
 - (b) the requisitioning officer shall immediately advise any other appropriate requisitioning officer concerned of the revocation.
 - (2) No payments against the debt shall be requisitioned until two weeks have elapsed after the date of the advice sent as required in paragraph (1) (a), after which time all payments shall be requisitioned in favour of the person to whom the debt is owed.
17. Every requisitioning officer shall prepare and transmit to every other appropriate requisitioning officer a copy of every notice, letter or other advice which has regard to the requirements of these regulations, and where such copy has been received the other appropriate requisitioning officer shall take the necessary action upon it as if it were the original document, except only as specified otherwise in these regulations.

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GUIDE ON FINANCIAL ADMINISTRATION

ASSIGNED DEBT AND POWER OF ATTORNEY PAYMENT REGULATIONS

APPENDIX A

NOTICE OF ACCEPTANCE OF THE ASSIGNMENT OF A CROWN DEBT OR A POWER OF ATTORNEY

To (Requisitioning Officer)

Department of

You are hereby notified that the attached notice of assignment of a Crown debt/power of attorney dated has been accepted on behalf of the Receiver General by the appropriate legal officer, in the sum of \$ being moneys due or becoming due by the Crown to (the assignor/donor) under (specify contract, expropriation, etc.) .. dated numbered for ... (purpose of contract/identity of expropriation, etc.) ..

The Assigned Debt and Power of Attorney Payment Regulations require you to take the following action:

- 1) complete the acknowledgement portion at the foot of this notice and return it to the sender by return mail,
- 2) send a copy of this notice to any other appropriate officer authorized to requisition payments against the debt concerned,
- 3) attach this notice to the copy of the contract, purchase order, lease or other document used to verify payments made against the specified debt,
- 4) maintain a record of payments made under this assignment/power of attorney,
- 5) prepare every requisition for payment in respect of the debt concerned nominating the assignee/attorney as the payee.

Date

.....
Authorized Paying Officer for
Receiver General

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ASSIGNED DEBT AND POWER OF ATTORNEY PAYMENT REGULATIONS

ACKNOWLEDGEMENT OF NOTICE OF ACCEPTANCE

TO

.....

Receipt is acknowledged of notice of acceptance dated
in respect of the assignment of a Crown debt/power of attorney made in respect of the sum of
\$. being moneys due or becoming due by the Crown to . (the assignor/donor)
under ... (specify contract, expropriation, etc.) dated
numbered for (purpose of contract/identity of expropriation, etc.) ..

Department of

Date

.....

Authorized Requisitioning Officer
for Minister

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RECEIPT AND DEPOSIT OF PUBLIC MONEY REGULATIONS

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RECEIPT AND DEPOSIT OF PUBLIC MONEY REGULATIONS

RECEIPT AND DEPOSIT OF PUBLIC MONEY REGULATIONS

Regulations Respecting the Recording of the Collection
and Receipt of Public Money and the Deposit of Public
Money to the Credit of the Receiver General

Short Title

1. These Regulations may be cited as the Receipt and Deposit of Public Money Regulations.

Interpretation

2. In these Regulations, "transfer account" means an account established by the Receiver General pursuant to section 5 in which public money deposited pursuant to paragraph 6(1) (d) is to be held until it is transferred to the Receiver General Account in the Bank of Canada, and all other words and expressions have the same meaning as in the Financial Administration Act.

Recording of Collection or Receipt of Public Money

3. Every statement issued by a public officer relating to an amount of money that is or may be due to Her Majesty in right of Canada shall specify that the paying instrument shall be made payable to the Receiver General.
4. Every person who collects or receives public money shall
 - (a) keep a register in which he shall record the collection or receipt of all public money collected or received by him; and
 - (b) upon request, or where directed by the appropriate Minister, issue a receipt or acknowledgement for any public money collected or received by him in cash.

Transfer Accounts

5. The Receiver General shall, at the request of the appropriate Minister, establish in the name of the Receiver General and in respect of a department an account with a chartered bank or fiscal agent designated by the Minister of Finance.

Deposit of Public Money Collected or Received

6. (1) Subject to subsection (2), all public money collected or received shall,
 - (a) each day, where the total public money on hand is one hundred dollars or more, and
 - (b) not less than once a week, in any case,
be deposited by the person who collects or receives it, or by such other person as the appropriate Minister may designate,
 - (c) with the Bank of Canada or one of its agencies to the credit of the Receiver General,
 - (d) in a transfer account, or
 - (e) where no transfer account has been established, with a branch of a chartered bank or with a fiscal agent designated by the Minister of Finance for transfer to the Receiver General.

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RECEIPT AND DEPOSIT OF PUBLIC MONEY REGULATIONS

- (2) The President of the Treasury Board may, where exceptional circumstances render compliance with paragraph (1) (a) or (b) impracticable, extend the time within which public money is required by that paragraph to be deposited.

Evidence of Deposit of Public Money

7. (1) Where a person deposits public money with the Bank of Canada or one of its agencies pursuant to paragraph 6(1) (c), he shall obtain from the Bank of Canada or its agency, as the case may be, a deposit receipt for the amount of the deposit in such form as the Receiver General may prescribe.
- (2) Where a person deposits public money in a transfer account pursuant to paragraph 6(1) (d), he shall obtain from the chartered bank or fiscal agent in which the transfer account is established, in such form and at such times as the Receiver General may prescribe, a transfer of funds voucher for the amount standing to the credit of the Receiver General in the transfer account payable to the Receiver General.
- (3) Where a person deposits public money with a branch of a chartered bank or with a fiscal agent pursuant to paragraph 6(1) (e), he shall obtain from the branch or fiscal agent, as the case may be, a transfer of funds voucher for the amount of the deposit payable to the Receiver General.

Deposit Receipts and Transfer of Funds Vouchers

8. Where a person obtains a deposit receipt or a transfer of funds voucher pursuant to section 7, he shall forthwith transmit the receipt or voucher, together with a statement, in such form as the appropriate Minister may prescribe, to such officer of the department on whose behalf the public money to which the receipt or voucher relates was deposited as the appropriate Minister may designate.
9. Where a transfer of funds voucher is transmitted pursuant to section 8, the department shall forthwith deposit the voucher with the Bank of Canada or one of its agencies and shall obtain from the Bank of Canada or its agency a deposit receipt for the amount of the voucher.
10. Every department on whose behalf public money has been deposited under these Regulations shall transmit to the Receiver General, at such times as the Receiver General directs, all deposit receipts that have been transmitted to it pursuant to section 8 and obtained by it pursuant to section 9, together with a statement in respect thereof in a form prescribed by the Receiver General.

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REVENUE TRUST ACCOUNT REGULATIONS

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REVENUE TRUST ACCOUNT REGULATIONS

REVENUE TRUST ACCOUNT REGULATIONS

1. These regulations may be cited as the Revenue Trust Account Regulations.
2. The Receiver General, on the request of the appropriate Minister, shall establish for any area and for any purpose an account hereinafter called a "Revenue Trust Account" in the name of a department in a branch of a bank or with such fiscal agent as has been designated by the Minister of Finance.
3. Unless otherwise provided, these regulations, notwithstanding the regulations relating to section 19 of the Financial Administration Act made by Treasury Board Minute T.B. 478542 of November 10, 1954, and the Receipt and Deposit of Public Money Regulations made by Treasury Board Minute T.B. 691190, dated August 27, 1969, apply in any circumstances in which a Revenue Trust Account has been established.
4. Where money has been paid to a public officer in the Northwest Territories or the Yukon Territory or in such other area for which and for a purpose for which the Minister of Finance has authorized the establishment of a Revenue Trust Account, the money may be paid into the Account.
5. Where money has been paid into a Revenue Trust Account for any purpose and is in excess of the amount prescribed for that purpose, the excess amount so paid may be repaid to the person who paid it or his legal representatives.
6. Where money has been paid into a Revenue Trust Account for any purpose and the appropriate Minister is of opinion that
 - (a) the purpose for which the money has been paid has not been fulfilled, and
 - (b) no service has been rendered by or on behalf of Her Majesty,the amount so paid may be repaid to the person who paid it or his legal representatives.
7. Where money has been paid into a Revenue Trust Account for any purpose and the appropriate Minister is of opinion that the purpose for which the money has been paid has been fulfilled, the amount so paid less any money in excess of that required for the purpose shall be deposited to the credit of the Receiver General at least once each week in accordance with the Receipt and Deposit of Public Money Regulations.
8.
 - (1) Where money has been paid into a Revenue Trust Account for any purpose and the appropriate Minister is of opinion that the purpose for which the money has been paid has not been fulfilled but that a service has been rendered by or on behalf of Her Majesty, the appropriate Minister shall refer the matter to the Treasury Board with a statement of the relevant facts.
 - (2) Where a reference is made to the Treasury Board, pursuant to subsection (1), the Board shall determine the amount, if any, that is to be retained by Her Majesty in respect of any service rendered and the amount so determined shall be deposited to the credit of the Receiver General in accordance with the Receipt and Deposit of Public Money Regulations, and the balance, if any, shall be repaid to the person who paid it or his legal representatives.

TREASURY BOARD

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DELETION OF DEBTS REGULATIONS

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DELETION OF DEBTS REGULATIONS

DELETION OF DEBTS REGULATIONSRegulations Respecting the Deletion of Debts Due to Her Majesty and
Claims by Her Majesty that do not Exceed Five Thousand Dollars

Short Title

1. These Regulations may be cited as the Deletion of Debts Regulations.

Interpretation

2. In these Regulations “debts due to Her Majesty” means an obligation or debt due to Her Majesty or a claim by Her Majesty.

Deletion

3. The appropriate Minister may delete from the accounts, in whole or in part, a debt due to Her Majesty that does not exceed two thousand dollars.
4. The Treasury Board, on the recommendation of the appropriate Minister, may delete from the accounts, in whole or in part, a debt due to Her Majesty that exceeds two thousand dollars and does not exceed five thousand dollars.

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PUBLIC OFFICERS GUARANTEE REGULATIONS

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PUBLIC OFFICERS GUARANTEE REGULATIONS

PUBLIC OFFICERS GUARANTEE REGULATIONS

Regulations Relating to the
Public Officers Guarantee Account

1. These regulations may be cited as the Public Officers Guarantee Regulations.

Interpretation

2. In these regulations,
 - (a) "Account" means the Public Officers Guarantee Account;
 - (b) "Act" means the Financial Administration Act;
 - (c) "appropriate Minister" means, with respect to a department or a Crown corporation, the appropriate Minister as defined in the Act, and, with respect to a division or branch of the public service designated by the Treasury Board as a department for the purposes of these regulations, the Minister designated by the Board;
 - (d) "Crown corporation" means a Crown corporation, as defined in the Act, that is designated by the Treasury Board for the purposes of these regulations;
 - (e) "defalcation" includes any fraudulent act or omission of a public officer that occasions loss in money or property to
 - (i) Her Majesty, or
 - (ii) persons other than Her Majesty, when such money or property was in the custody of the public officer in the course of his official duties.

whether such loss is recovered or not;
 - (f) "department" means a department, as defined in the Act, and any other division or branch of the public service designated by the Treasury Board as a department for the purposes of these regulations; and
 - (g) "public officer" means any person employed in the service of a department or a Crown corporation to which these regulations apply and includes any person who collects or receives public money or is charged with the custody or management of property on behalf of such department or Crown corporation.

Account

3. (1) There is hereby established an account in the Consolidated Revenue Fund to be known as the Public Officers Guarantee Account.
- (2) The Account shall be credited with
 - (a) the balance of the Government Officers Guarantee fund,
 - (b) premiums received from departments and Crown corporations as hereinafter provided,
 - (c) amounts recovered by Her Majesty in respect of payments out of the Account or the Government Officers Guarantee Fund, and

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PUBLIC OFFICERS GUARANTEE REGULATIONS

- (d) moneys appropriated by Parliament for the purposes of the Account.
- (3) The Account shall be charged with payments in respect of defalcations of public officers as hereinafter provided.
- (4) The Account shall be administered by the Minister of Finance.

Defalcations

- 4. Whenever a public officer has reason to believe that there has been a defalcation he shall forthwith notify the appropriate Minister who shall forthwith,
 - (a) in consultation with the Deputy Minister of Justice, take such steps as may be necessary to recover the amount of the defalcation, and
 - (b) submit to the Treasury Board such information as is known to him in respect of such defalcation.
- 5. (1) Every public officer by reason of whose defalcation a loss is suffered shall be prosecuted, unless the appropriate Minister, after consultation with the Deputy Minister of Justice, directs that a prosecution shall not be undertaken.
- (2) The appropriate Minister shall submit to the Treasury Board a report in respect of each case under subsection (1)
 - (a) in which a prosecution is not undertaken setting forth the reasons therefor, or
 - (b) in which a prosecution is undertaken and full restitution is made.
- 6. (1) Every payment made out of the Account is subject to the prior approval of the Treasury Board and to such terms and conditions as the Treasury Board may prescribe.
- (2) Every application to the Treasury Board for the approval of a payment out of the Account shall be made in writing by the appropriate Minister and shall include the following statements:
 - (a) the account or person that has suffered loss;
 - (b) the name and position of the public officer by reason of whose defalcation the loss was suffered;
 - (c) the amount of the loss;
 - (d) the measures taken to effect recovery, the amount recovered, if any, and the probability of further recovery;
 - (e) whether prosecution has been undertaken and, if so, the results of the prosecution;
 - (f) other action taken to punish or discipline the public officer by reason of whose defalcation the loss was suffered;
 - (g) the safeguards adopted to prevent further defalcations under similar circumstances, and
 - (h) the legal and other costs incurred in connection with the measures taken to effect recovery.

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PUBLIC OFFICERS GUARANTEE REGULATIONS

- (3) An appropriation or revenue or other account that has suffered loss by reason of a defalcation shall, whenever possible, be reimbursed before the close of the fiscal year in which the loss was suffered, and for the purpose of approving payment before the close of the fiscal year, the Treasury Board may waive the requirements of subsection (2), but in such case, the appropriate Minister shall
- (a) submit any statements required by subsection (2) that are not available at the time of application as soon as possible after payment, and
 - (b) submit a report on the case containing such information and in such detail as the Treasury Board may require within three months after payment, and quarterly thereafter, until all the statements required by subsection (2) have been submitted.
- (4) The amount of every loss suffered by Her Majesty by reason of a defalcation and the amount of every payment from the Account shall be recovered unless the Deputy Minister of Justice expresses the opinion that no action or no further action is warranted, in which case, the appropriate Minister shall take whatever steps are necessary to have the amount of the loss deleted from the accounts.
- (5) Unless the Treasury Board otherwise directs, the legal expenses and other costs incurred in connection with any measures taken to effect recovery of any loss shall be borne by the department or Crown corporation concerned.

Application

7. (1) These regulations apply to the departments to which the Act applies, except
- (a) The Post Office Department, and
 - (b) Annuity Representatives, Department of Labour.
- (2) These regulations apply to the Crown corporations listed in schedules C and D to the Act, except
- (a) Canadian National Railways,
 - (b) Canadian National (West Indies) Steamships, Limited,
 - (c) Central Mortgage and Housing Corporation,
 - (d) Trans-Canada Air Lines, and
 - (e) Canadian Broadcasting Corporation.
- (3) For the purposes of these regulations the Office of the Custodian of Enemy Property is designated as a department, and the Secretary of State the appropriate Minister in respect thereof.

General

8. (1) The Minister of Finance shall review annually the state of the Account and shall recommend to the Treasury Board such measures as in his opinion are required to ensure that the Account is sufficient to meet the charges that may be made against it.

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PUBLIC OFFICERS GUARANTEE REGULATIONS

- (2) A department or Crown Corporation to which these regulations apply shall, whenever required by the Treasury Board, make such payments to the Account by way of premiums or contributions, out of moneys available for the purpose, and comply with such other terms and conditions as the Board may require.
- (3) Until the Treasury Board otherwise directs, no premiums or contributions shall be assessed against the departments and Crown corporations to which these regulations apply.

TREASURY BOARD

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ACCOUNTABLE ADVANCES REGULATIONS

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ACCOUNTABLE ADVANCES REGULATIONS

ACCOUNTABLE ADVANCES REGULATIONSRegulations Governing the Making of
Accountable Advances

Short Title

1. These Regulations may be cited as the Accountable Advances Regulations.

Interpretation

2. In these Regulations, "accountable advance" means
 - (a) a sum of money advanced from and temporarily charged to an appropriation, and
 - (b) a sum of money advanced from the sum of money described in paragraph (a),
 for which the person to whom the sum is advanced is required to make an accounting or a repayment in accordance with the Financial Administration Act and these Regulations;
 "appropriation" includes a revolving fund, working capital advance and special account;
 "cash" means bank notes and coins;
 "departmental bank account" means a bank account authorized by the Receiver General to be established by the appropriate Minister in a bank designated by the Minister of Finance, or in any branch of such a bank, in the name of the department of the appropriate Minister, or in the name of a branch or division thereof, for the purpose of operating an accountable advance from the Consolidated Revenue Fund;
 "person" includes any branch or division of a department or any organization to which an accountable advance is made;
 "petty cash expenditure" means a disbursement made out of an accountable advance held in a department in cash;
 "standing advance" means an accountable advance made in a fixed amount to a person required to incur expenditures on a continuing basis and reimbursed to that fixed amount each time an accounting for expenditures is made.

Making of Advances

3. (1) A deputy head may authorize the making of an accountable advance to a person who is charged with the carrying out of a departmental program in respect of which prompt expenditures must be made and the normal payment facilities are either not practical or not immediately available.
 - (2) An accountable advance made pursuant to subsection (1) shall be chargeable to the appropriation for the service in respect of which the advance is made.
4. (1) A standing advance shall be maintained only in an amount that, in the opinion of the deputy head, is justified by the level of the actual expenditures being made therefrom.
 - (2) The amount of any accountable advance, other than a standing advance, shall be an amount that, in the opinion of the deputy head, is sufficient to cover the expenditures that can reasonably be expected to be made therefrom.

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ACCOUNTABLE ADVANCES REGULATIONS

- (3) Notwithstanding subsections (1) and (2), unless the Treasury Board otherwise directs, no accountable advance made for the purpose of making petty cash expenditures shall exceed \$1,000.

Expenditures from Advances

5. The deputy head shall set the maximum amount of any expenditure that may be made from any accountable advance and, except where the Treasury Board otherwise directs,
- (a) no expenditure from an accountable advance made for the purpose of making petty cash expenditures shall exceed \$50; and
 - (b) no expenditure in excess of \$500 may be made from a departmental bank account except where the purpose of the expenditure is to obtain cash to make disbursements in respect of a payroll payable in cash.

Accounting for Advances

6. (1) The deputy head shall establish and maintain records of all accountable advances authorized by him and all expenditures made therefrom.
- (2) The records described in subsection (1) shall include a separate account receivable for each accountable advance and all such accounts receivable shall be controlled by a control account maintained by the deputy head within those records.
7. (1) A standing advance shall be accounted for not later than ten days after the end of any month in which expenditures are incurred.
- (2) All accountable advances, other than standing advances, shall be accounted for not later than fifteen days after the purpose for which the advance was made has been fulfilled.
- (3) Where a working capital advance or special account has been authorized by Parliament for the purpose of financing accountable advances, all charges to appropriations to reimburse the working capital advance or special account shall, unless the Treasury Board otherwise directs, be made not later than ten days after the end of any month in which expenditures are incurred.
8. Within thirty days after the termination of each fiscal year, the deputy head shall obtain from the holder or custodian of each standing advance made from a revolving fund, working capital advance or special account a certificate acknowledging the continuing existence of and responsibility for the advance and shall provide to the Receiver General such reports and certificates as he may require for the purposes of the Public Accounts.

GUIDE ON FINANCIAL ADMINISTRATION
FOR DEPARTMENTS AND AGENCIES OF THE GOVERNMENT OF CANADA

PART II

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INTRODUCTION

CHAPTER I — INTRODUCTION

The purpose of this introduction is to trace briefly the evolution of financial administration in the Government of Canada in order to provide background information on the origin of this Guide. The policy in Part I of the Guide, Circular No. 1973-31, replaces Treasury Board Management Improvement Policies MI-3-66 and MI-4-66, and Circular Letter No. 1971-124. This Part replaces Financial Management in Departments and Agencies of the Government of Canada, a guide issued by Treasury Board in 1966. Because the scope of financial administration in the management improvement policies and previous guide includes matters which are not the subject of this Guide, a definition of financial administration is provided to identify the limits placed on the content of this Guide. This introductory chapter concludes by explaining the reasons for preparing the Guide and the manner in which it should be used.

A. HISTORICAL BACKGROUND TO ISSUE OF GUIDE

At the time of Confederation in 1867, the principles of financial administration that underly the British parliamentary system of government were firmly established. The concepts of a single consolidated fund, the cash basis of accounting, the annual limit on financial authority provided by Parliament, and the specifications of the purposes for which funds may be spent through appropriations, all provided proven foundations for financial administration which have survived to this day.

In 1921, the form of the Statement of Assets and Liabilities was reviewed by experts engaged by the Minister of Finance and the principle of valuing only "active" assets was established, a principle which is still used to explain the presentation of this Statement.

In 1931, the office of the Comptroller of the Treasury was established as a means of remedying certain unsatisfactory financial practices that were found to be prevalent at the time, including the use of funds provided in appropriations for purposes other than those specified by Parliament and the lack of any current record of outstanding commitments. The Comptroller took over the financial staffs of departments and was made responsible for receipts into and disbursements out of the Consolidated Revenue Fund, for maintaining a record of all commitments chargeable to each appropriation, and for reviewing all expenditures to ensure that they were lawful charges against appropriations, funds were available and they were properly authorized.

After 1931, the Treasury Board took action to standardize the vote structure, vote wordings and the detail supporting the Estimates. It also became more active in giving central direction to departments and agencies on the manner in which they should exercise their financial responsibilities. By 1961, the system of financial administration was chiefly characterized by its orientation towards satisfying parliamentary and Treasury Board requirements. There was:

- a single consolidated revenue fund through which most revenues flowed;
- a standardized appropriation structure with detail by standard objects of expenditure;
- within the appropriation structure approved by Parliament, a secondary control system based on allotments generally specified by Treasury Board in terms of objects of expenditure;
- a centralized and formal system of recording commitments in relation to each appropriation and allotment;

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- an independent pre-audit of expenditures to ensure cash availability and the propriety of charges to the appropriations;
- standardized accounting and reporting systems;
- limited delegation of authority; and
- accounting on a cash basis, modified to a degree at the year-end.

Initiated by the recommendations in Volume I of the Royal Commission on Government Organization, the financial system was altered during the 1960's to better serve the needs of managers with operating responsibilities for carrying out government programs. This was done, within the constraints of existing legislation and organizational responsibilities, by encouraging departments and agencies to supplement their traditional systems with new systems that satisfied their managerial requirements. It was in these circumstances that Treasury Board Management Improvement Policy MI-3-66 and the publication Financial Management in the Government of Canada were issued in 1966.

Many of the legal and organizational constraints of the traditional system were removed in 1969 when the Financial Administration Act was amended to place primary responsibility for accounting, and for budgetary and financial control in the hands of deputy heads of departments and agencies. The responsibilities of the Office of the Comptroller of the Treasury for the central accounts of the government and for the operation of the Consolidated Revenue Fund were transferred to the newly created Department of Supply and Services. Although this department continues to perform some of the former functions of the Comptroller of the Treasury on behalf of departments, it does so on a service basis.

As a result of the change from the control role of the Office of Comptroller of the Treasury to the primarily service role of the Department of Supply and Services, departmental officers now have primary responsibility for making financial information visible, for rendering a proper accounting and for applying reasonable standards of probity and prudence in controlling the expenditure of public funds. This shift in responsibility from a central agency to departments makes it necessary, more than ever before, for departmental officers to have a clear understanding of the financial responsibilities that Parliament has assigned to them.

It must also be recognized that the Treasury Board, the Receiver General and the Minister of Finance have responsibility for the central accounts of the Government of Canada. In carrying out their responsibilities without unnecessary duplication, they must have assurance that departmental responsibilities are being satisfactorily performed.

A number of steps have been taken to ensure a clear understanding of and satisfactory performance of departmental responsibilities by Treasury Board under its legal responsibility for overseeing the system of financial administration in the Government of Canada. At the time of the amendment of the Financial Administration Act, the Board established a task force to review the plans of departments to cope with their vastly increased financial responsibilities. In 1971, the Treasury Board carried out a detailed evaluation of the financial practices of a sample of departments and agencies which indicated the need to update existing directions and guidelines to reflect the changes that have taken place since the previous policy and guide were first issued.

In response to this need, this Guide is being issued to provide direction and guidance to deputy heads and their officers on the manner in which they should carry out their respective responsibilities for financial administration.

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B. SCOPE OF GUIDE

Care should be taken not to confuse the function of financial administration with organizational responsibility. Many of the matters discussed in this Guide concern the responsibilities of every manager for managing financial resources; others refer to services normally provided by financial advisers or their equivalents; and still others may often be provided by staff providing other functional services.

In this Guide, financial administration is considered to include:

- Classification of accounts — This includes identifying and designing the code of accounts used to classify and aggregate financial data.
- Budget preparation — This includes providing data for planning purposes; organizing and co-ordinating financial input to budgetary submissions; and analyzing and providing advice on such submissions.
- Budgetary control — This includes preparing budgetary data for input to financial reporting systems; analyzing expenditures and commitments and preparing cash forecasts; and analyzing variance reports showing differences between planned and actual accomplishment.
- Financial reporting systems — This includes identifying the needs for accounting information; designing and maintaining reporting systems, including the design of reporting formats; preparing and distributing reports; and training recipients in the use of financial reports.
- Accounting systems design and operation — This includes satisfying the needs for accounting information by designing and maintaining accounting systems, including specifications for computerized systems; disseminating information on systems by means of training courses, manuals and other means of instruction; controlling input of data to accounting records; maintaining accounting records including all necessary analysis and reconciliations; designing and operating cost accounting systems; billing and accounting for accounts receivable and other revenue transactions; and accounting for inventories and other assets.
- Financial control — This includes verifying the accuracy, authority and completeness of vouchers and other documentation supporting financial transactions; reviewing transactions to ensure approval by persons with delegated financial authority; exercising financial signing authorities; analyzing proposals and documentation concerning contracts, grants and contributions as a basis for decisions on payments; controlling and collecting accounts receivable; and exercising financial control over inventories and other assets.
- Financial audit — This includes independently appraising the efficiency and effectiveness of financial systems and procedures and the adequacy of internal accounting, financial and budgetary controls; examining the propriety of completed transactions and their compliance with established policies and procedures; and conducting special purpose investigations.

This definition is not intended to prescribe or limit the responsibilities of financial officers. Such officers should be an integral part of the management team of a department and should work closely with, not separately from, other managers in the planning, controlling and reporting of a department's activities, thereby avoiding duplication and conflict, and ensuring co-ordinated effort.

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C. USE OF GUIDE

This Guide is written to consolidate and amplify a number of Treasury Board directions in the area of financial administration. It is designed to complement instructions issued in the Program Forecast and Estimates Manual, and the Planning, Programming and Budgeting Guide. The Guide is intended to provide a comprehensive and convenient document that can be used for training financial officers in the performance of their duties and for their reference in actually carrying out their daily duties. Departments are encouraged to include the policy and regulations found in Part I of this Guide in their departmental financial manuals to ensure their widest possible distribution. Copies of the entire Guide should be available in each financial organization having significant financial responsibilities.

Part II of this Guide amplifies the policy and regulations found in Part I by providing reasons for the directives and guidelines and by suggesting how the mandatory and optional procedures might be implemented.

The table of contents at the beginning of each Part and at the beginning of each chapter of Part II will assist the user in referring to general topics.

Attention is directed to Part III of the Guide. This Part is an evaluation checklist which identifies the key features of financial administration systems that Treasury Board will expect to find in the course of evaluating departmental systems.

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PART II — CHAPTER II

PRINCIPLES, OBJECTIVES AND RESPONSIBILITY FOR FINANCIAL ADMINISTRATION

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POLICY

• *Deputy heads of departments and agencies are responsible for satisfying departmental requirements and the requirements of Parliament and central agencies, as expressed in statutes, regulations and other directions, for financial visibility, control and accountability through the establishment, maintenance and operation of systems of financial administration which include:*

- *classifications of accounts which identify the purpose of, responsibility for, and nature of resources involved in each financial transaction;*
- *budgets which, in addition to forecasting cash requirements for inclusion in Estimates, acknowledge managerial responsibility for costs in relation to planned output;*
- *reporting and budgetary control systems which compare actual and planned costs in relation to outputs, and actual and planned cash disbursements and commitments in relation to each appropriation, allotment or other limit;*
- *accounting systems which ensure the accuracy, completeness and authority of cost, cash and commitment data, and which safeguard cash and other assets;*
- *delegation of financial authorities by ministers and deputy heads in a manner which ensures an appropriate division of responsibilities in the disbursement and collection of public monies; and*
- *audits which independently and systematically evaluate the design and operation of departmental systems of financial administration.*

A. PRINCIPLES UNDERLYING PARLIAMENTARY CONTROL

Principles in accounting are rarely fundamental truths; they are more often statements of generally accepted practices that are upheld because of their pragmatic value. It is primarily in the latter sense that financial principles are identified in this chapter.

By controlling the supply of funds to the government, Parliament attempts, on behalf of the people of Canada, to direct the purposes for which the government shall spend funds, and how it shall account to Parliament for what it has done. The Public Accounts of Canada describe the purpose of government accounting in the following statement:

“the prime purpose of government accounting is to serve the requirements of Parliament and more particularly to ensure effective control by Parliament over public monies. As parliamentary control in Canada is predicated on the operation of the Consolidated Revenue Fund, which is by law a cash account, and on regulating the flow of cash receipts into and cash payments out of the fund, it follows that the accounts of Canada are maintained basically on a cash system”.

This concise statement identifies two basic concepts that have emerged from several centuries of evolution of the parliamentary system of government, namely:

- the concept of a consolidated fund; and
- the principle of cash accounting.

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The Public Accounts also identify another principle that has more recently evolved. This concerns the manner in which the assets and liabilities of Canada are recorded.

“The assets and liabilities of Canada are set out so as to disclose the amount of the net debt. In 1920, the practice was established of offsetting against the gross liabilities only what were described as ‘active’ assets in determining the net debt. In the budget speech of May 18, 1920, the following explanation was given by the Minister of Finance:

‘Assets which are not readily convertible . . . or are not interest producing, are not such assets as ought to be deducted from the gross debt.’”

There are two other principles which underly parliamentary control which are not stated in the explanation in the Public Accounts, but which are ably explained in the following quotation taken from the United Kingdom publication “Government Accounting, A Guide on Accounting and Financial Procedures for the Use of Government Departments”. This states:

“It is a vital constitutional principle that all money granted by Parliament in any Session for the service of the Government, during that Session, be appropriated by act of Parliament to some distinct use to take place wholly or partially in the financial year in which the Act is passed.”

This statement identifies:

- the concept of specifying through separate votes the purposes for which the funds are provided; and
- the concept of annual parliamentary appropriations.

These five requirements are now discussed in greater detail, including the modifications approved by Parliament in their application.

1. Consolidated Revenue Fund

The concept of a single fund for receiving and recording all revenues and expenditures dates back in England to 1787. Thus, by the time of Confederation, it was firmly established as fundamental to parliamentary control of public moneys. The British North America Act directs that all “duties and revenues” shall form one consolidated revenue fund and the Financial Administration Act defines the fund as “the aggregate of all public moneys that are on deposit at the credit of the Receiver General”. The intent was if all cash flowed into the fund, with parliamentary authority being required for all payments out of the fund, parliamentary control would be fully effective.

Not all public funds flow through the Consolidated Revenue Fund. Some crown corporations and a number of other bodies use separate banking facilities and produce their own accounts. The cash balances of these organizations are not reflected in the reporting on the Consolidated Revenue Fund.

2. Modified Cash Accounting

In the Public Accounts it is stated that because parliamentary control in Canada is predicated “on regulating the flow of cash receipts into and cash payments out of the Fund, it follows that the accounts of Canada are maintained basically on a cash system”.

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To achieve this objective, all accounting should be on a gross basis. However, exceptions have been permitted in respect of certain non-tax revenue. Parliament through vote wording permits receipts in these instances to be added to money granted in appropriations and to be spent for the purposes specified in the appropriations. This revenue may be either receipts recovered from other appropriations, or from sources outside government. This practice results in parliamentary control being exercised on a net basis in these instances.

Revenues, except for transactions between appropriations, are reported on a cash basis. Expenditures are permitted, under the Financial Administration Act, for thirty days after the end of each fiscal year to discharge debts properly applicable to the old year. There is no legal requirement for cheques to be issued within thirty days of the year-end to discharge debts applicable to the year, but departments should not be in the position of carrying over such charges to the following year.

There are three other less recent modifications to the strict cash basis of accounting. Discounts and commissions on loans are not charged to expenditure in the year in which they are paid; they are treated as deferred charges to be amortized over the period of the loan. Secondly, from time to time a general reserve for possible losses on loans, advances and other assets is created by a lump-sum charge to budgetary expenditures. Thirdly, interest on the public debt is charged to budgetary expenditure month by month as it accrues rather than as it becomes due and payable.

In 1970, the change to bi-weekly payment of salaries led to a similar modification to the strict basis of cash accounting in order to permit the cost of any pay period overlapping the month and year-ends to be apportioned on a pro rata basis.

The practice of utilizing revolving funds and working capital advances to finance departmental operations is a form of departure from cash accounting even though the Consolidated Revenue Fund continues to record only cash advanced or refunded. This is because the budgetary expenditures and revenues of the government as a whole do not reflect the cash transactions that take place in these funds and advances. The budgetary accounts, using the example of a working capital advance to finance inventories, are charged only when the goods are withdrawn from stores and used in operations. This has the same effect on budgetary revenues and expenditures as if the basis of accounting were on the accrual basis.

3. Recording and Valuation of Assets and Liabilities

As stated previously, the Consolidated Revenue Fund is by law a cash fund. It is not generally conceived of in the more common accounting sense of a separate accounting entity and therefore does not provide the basis for the items reported on the Statement of Assets and Liabilities of the Government of Canada.

Not all assets and liabilities are reported on the Statement of Assets and Liabilities. In addition to the crown corporations and other agencies whose cash transactions are outside the Consolidated Revenue Fund, revolving funds, working capital advances, and similar accounts are also separate accounting entities. The Statement of Assets and Liabilities shows only the outstanding balances due to or by the Consolidated Revenue Fund and not the individual assets and liabilities of these separate funds. From an accounting viewpoint, the significance of this treatment is that the Statement of Assets and Liabilities does not produce a consolidated reporting of all assets and liabilities. Accounting for balances advanced to these separate funds is on a cost basis. The nature and value of these funds

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can be determined by reference to the separate statements of assets and liabilities which are provided in the Public Accounts for both these funds and crown corporations, and the underlying equity in crown corporations can be determined by reference to a note.

Since 1920, Canadian practice has generally been to offset against liabilities only assets that are convertible into cash or are revenue producing, thereby arriving at an amount known as the Government of Canada's net debt. Following this realization principle, capital works and inventories are charged as expenditures when they are acquired, and accounts receivable are not recorded as assets on the Statement of Assets and Liabilities.

The realization principle has been modified as a result of a number of exceptions which have been approved by Parliament over the years:

- loans and advances which are not realizable or revenue producing except through parliamentary appropriations, are carried in the accounts;
- costs, such as superannuation fund deficiencies, are carried as deferred charges which are not realizable except through charges to the budgetary accounts;
- working capital advances and revolving funds have been created which finance fixed assets and inventories, assets which would normally not be carried on the Statement of Assets and Liabilities; and
- a reserve has been provided for losses on realization of assets.

In summary, the valuation of assets continues to be primarily on a modified realization basis, with only limited steps being taken to assess the financial position of the Government of Canada as a going concern. The official explanation of the government's approach to showing its financial position was developed in the 1920's when accounting in the private sector took the same conservative approach to asset valuation. Since then, modifications have been approved to partially reflect the continuity of government and to avoid charging to a current year's operations items that have long-term future benefit.

4. Parliamentary Control Through Appropriations

Parliamentary control has been traditionally exercised through the provision of funds by votes which, through their wordings, limit the purposes for which funds may be used and which, through their amounts, limit the amounts that can be spent. The present rules for votes are contained in the Program Forecast and Estimates Manual, the two main rules being:

- there are one or more votes for each department, agency or legal entity; and
- all the budgetary requirements for a program are gathered into one or more votes, with votes for capital expenditures and for grants and contributions, when either of these exceeds \$5 million, being separate from the operating expenditures vote.

There are standard vote wordings except where special authority is required. Thus, the main limitation provided in appropriation acts on the purposes for which funds may be spent, other than the standardized wording, is provided by the program name which differs with each program. Additional limitations to those provided by appropriation acts may, of course, be provided for in the legislation governing specific programs.

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Even though there may be alternative votes to which an expenditure might be charged based on vote wordings, the practice should be to charge the expenditure to that vote where the service was provided for in the Estimates.

5. Annual Provision of Financial Authority

Traditionally, Parliament has granted spending authority on an annual basis to ensure that at least once a year there will be opportunity to obtain redress of grievances. The Financial Administration Act states that "All estimates of expenditures submitted to Parliament shall be for the services coming in course of payment during the fiscal year". Nevertheless, there have been a number of modifications to the strict application of this principle and, as a result, authority is granted annually for less than half of the government's total expenditures. The modifications permitted include:

- statutory payments;
- the non-lapsing appropriation authority provided in a limited number of instances including that of the Canadian International Development Agency; and
- the continuing authority granted when revolving funds, working capital advances, and other special accounts, such as non-budgetary loans, investments and advances, are approved.

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B. OBJECTIVES FOR DEPARTMENTAL FINANCIAL ADMINISTRATION SYSTEMS

Departmental systems of financial administration should satisfy parliamentary and managerial requirements for financial visibility, accountability and control. It is often argued that financial practices designed to satisfy managerial requirements are in conflict with parliamentary requirements, but throughout this Guide, systems and procedures emphasize and demonstrate their compatibility.

A brief explanation of the above general objective is now given to ensure that its significance is fully appreciated and to highlight the basic themes that run through all the aspects of financial administration which are discussed in this Guide. Budgetary, accounting, reporting and control procedures are all part of a single system of financial administration and these components must work together if the common goals of financial visibility, accountability and control are to be attained.

1. Visibility

The first goal of any system of financial administration is to make properly visible all financial information that Parliament requires. This includes not only the display of information that surfaces in the Estimates and Public Accounts, but all the components that produce the aggregate data that Parliament receives.

The appropriations identify those headings under which Parliament separately provides financial authority and expects to receive an accounting. Since these generally also reflect departmental programs which are usually separately managed, the appropriation structure is the starting point in making visible financial information for Parliament, central agencies and departmental management.

Parliament is also interested in receiving information disclosing the portion of each appropriation that is utilized for purposes of administration, operation and maintenance, for construction or acquisition of capital assets, and for grants and contributions. This division is also of interest to management because of the differing long-term significance of each of these items, and the differing degrees to which they can be managed.

The supporting information in the Estimates provides Parliament with details of the costs of the major activities making up each departmental program, and details by standard objects showing the resources required to carry out each program. This dual presentation provides Parliament with a costing of each program in terms of both output and input.

Accurate data for Parliament in terms of activities and standard objects require detailed compilation within departments. Departmental management, and in some instances Treasury Board, also need to know the costs of the various operations, projects, tasks, etc.; as well as the resources required to attain a program's objectives, if they are to allocate resources in a manner that produces the most effective and efficient courses of action. By making fully visible the consequences of past decisions, managers can better plan for the future.

The size of most departmental programs dictates the need to delegate responsibility within a department, and therefore it is necessary to identify the resources required by and the activities which are assigned to each centre of responsibility. Only aggregate amounts are disclosed to Parliament since the minister of each department assumes responsibility for the collective actions of his subordinates; internally, details by each responsibility centre are required so that the minister can discharge his collective responsibility.

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While Parliament is provided with only limited detail, management at both the central and departmental levels needs financial data to plan, analyze, interpret, and report the events that are taking place. Figures that comply only with parliamentary requirements will fall far short of satisfying vital managerial needs. Parliament has granted departments greater flexibility in managing their financial resources by reducing the number of appropriations. This does not, however, lessen the responsibility of departments to provide accurate and meaningful supporting information to Parliament.

Identification of any type of cost information is an art and completely accurate costs will always be elusive. The degree of accuracy in cost identification should vary directly with the importance of cost data to the users. Parliament does not need highly precise cost data, but it needs cost information that is consistently prepared both between departments and from year to year, and it must have assurance that the cost apportionment in the Public Accounts matches that in the Estimates.

Management has a need for more detailed cost visibility, but managerial requirements will differ greatly depending upon the nature of the program. For simple administrative operations, prompt processing of cash disbursements may be all that is required. For operations where financial resources must be managed closely on a periodic basis, period-end adjustments may be necessary to record non-cash transactions if the cost data, particularly unit cost data, are not to be misleading. Finally, where trading or processing type operations are involved, managers need to be able to trace costs on a continuous basis, and a revolving fund may be required to facilitate the allocation and re-allocation of costs.

Financial visibility involves more than selection of appropriate techniques; the chosen techniques must be applied in a manner which ensures the accuracy, timeliness and authority of the data reported. A wide variety of financial techniques is required to ensure the credibility of the financial data that are produced for purposes of planning and accounting for financial resources.

2. Accountability

The requirement for financial accountability is closely related to that of financial visibility in that it centres around the identification of financial information in relation to each responsible manager. Departmental accountability to Parliament is primarily in terms of the data included in the Estimates, but where the authority granted by Parliament is internally delegated, there must be adequate accountability within a department before an aggregate accounting to Parliament can be rendered.

The financial resources allocated to each responsibility centre manager must be carefully determined in relation to each activity element for which he has been assigned responsibility. This must be done in a way that ensures the manager's commitment to his budget and its constraints. An accounting must then be rendered which discloses each manager's actual performance in relation to the commitment he has accepted. Wherever possible, the accounting should disclose accomplishment in relation to costs consumed, as opposed to being solely in terms of cash disbursed. It is because of this that this Guide distinguishes between traditional cash accounting and reporting systems which are legally required by all departments, and other systems that provide an accounting on a cost basis.

Accurate accounting and reporting are of limited value if responsibility for results cannot be determined. If complicated and expensive cost allocation techniques are required to arrive at the figures reported, those seeking to evade responsibility may do so on the basis that such allocations are the creation of financial, as opposed to operational, staff and therefore questionable. Assignment of organizational responsibility should correspond reasonably closely to the objectives to be attained, and thus permit meaningful financial reporting.

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It should be noted that in government, managers are accountable not only for the aggregate manner in which they discharge their responsibilities, but also for the propriety of each individual transaction. Although the detail included in the formal accounting rendered through the Public Accounts to Parliament has been reduced, Parliament has the right to question the propriety of individual transactions.

3. Control

Financial control is closely related to accountability. The responsible manager is the focal point of any system of control for it is he, and only he, who takes those actions that result in expenditures and who can take corrective action. The needs for financial control in government are manifested in a number of forms:

- Parliament appropriates funds on a cash basis with authority lapsing annually. Controls must be exercised to ensure disbursements do not exceed cash authority granted.
- Managers have assigned objectives to attain and assigned resources for attaining them. Operational performance must be controlled by periodic comparison of planned and actual results.
- The requirements of probity and prudence dictate the need for an appropriate division of responsibilities so that the work of one employee independently checks the work of another. This type of internal control is necessary to ensure against misuse of delegated authority.
- Responsibility for custodianship of cash, inventories, accounts receivable and other assets often has to be delegated. Through accounting controls, an independent check can be imposed on those having custodial responsibilities.
- Finally, there must be adequate control over the financial system itself. By providing leadership and by evaluating and auditing those providing financial services a standard should be realized that ensures the integrity and credibility of the system.

The interests of Parliament and of supervisory levels of management in a department are compatible if it is recognized that control is essential for accountability. The chain of accountability from the lowest level of responsibility up through the department to the minister and to Parliament can be honoured only if each level of responsibility has adequate means of controlling those to whom they have delegated authority. However, the control system must be designed in a way to ensure that it does not so circumscribe a manager's authority that he ends up being relieved of responsibility.

4. Summary

This Guide recognizes that primary responsibility for ensuring financial visibility, accountability and control must rest with line management. Nevertheless, each level of management needs supporting staff capable of providing financial services in a way that enables it to honour its responsibilities. The Guide assumes that there is need for professional integrity in the operation of the financial system at all levels of management within a department; those responsible for providing financial services at each level should lead and evaluate those providing similar services to lower levels. The need to provide financial accountability upwards through a department requires that those providing financial services exercise a degree of functional integrity that may not be necessary in other supporting services. The Guide, wherever possible, seeks to identify the important responsibilities of those providing financial services, recognizing that such services are being provided on behalf of the manager being serviced, with the deputy head looking to his senior financial adviser to ensure the adequacy of the financial services provided throughout his department or agency.

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GUIDE ON FINANCIAL ADMINISTRATION**PRINCIPLES, OBJECTIVES AND RESPONSIBILITY FOR FINANCIAL ADMINISTRATION****C. RESPONSIBILITY FOR FINANCIAL ADMINISTRATION**

The Financial Administration Act provides the statutory basis not only for most of the financial practices followed by departments and agencies, but also for the allocation of responsibility for financial administration. This allocation of responsibility is briefly described in this section.

1. Treasury Board

Treasury Board is provided with general authority to act in the area of financial administration on behalf of the government under Section 5 of the Act which states that:

- 5(1) — “The Treasury Board may act for the Queen’s Privy Council for Canada on all matters relating to
- (a) general administration policy in the public service of Canada
 - (c) financial management, including estimates, expenditures, financial commitments, accounts, fees or charges for the provision of services or the use of facilities, rentals, licences, leases, revenues from the disposition of property, and procedures by which departments manage, record and account for revenues received or receivable from any source whatever.”
- 5(4) — “The Treasury Board may prescribe from time to time the manner and form in which the accounts of Canada and the accounts of the several departments shall be kept, and may direct any person receiving, managing or disbursing public money to keep any books, records or accounts that the Board considers necessary.”

In addition, Treasury Board has general authority to make regulations under Section 6 which states that:

- 6 — “Subject to any other Act, the Treasury Board may make regulations
- (a) for the purpose of ensuring effective co-ordination of administrative functions and services among and within departments;
 - (b) for the establishment of general administrative standards of performance and respecting the assessment of the performance of portions of the public service of Canada in the light of such standards;
 - (c) respecting the collection, management and administration of, and the accounting for public money;
 - (d) respecting the keeping of records of public property;
 - (e) for the purposes set forth in subsections 11(3) and (4), section 14, subsections 26(2), 29(2) and 31(1), sections 35 and 53, and subsections 54(1), 70(3) and 98(2); and
 - (f) for any other purpose necessary for the efficient administration of the public service.”

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Under Section 54, the Treasury Board has another form of general authority, namely to issue regulations concerning the manner in which the accounts of Canada are kept. This Section states that:

54(1) — “Subject to regulations of the Treasury Board, the Receiver General shall cause accounts to be kept in such manner as to show

- (a) the expenditures made under each appropriation;
- (b) the revenues of Canada; and
- (c) the other payments into and out of the Consolidated Revenue Fund.”

In addition to the above, the areas in which Treasury Board has specific authority to issue regulations, as referred to in Section 6, may be summarized as follows:

Section 11(3) — To prescribe the form and manner of keeping records of receipts and deposits.

Section 11(4) — To prescribe the manner of paying public money to the credit of the Receiver General.

Section 14(1) — To prescribe the manner of holding and repaying deposits.

Section 14(2) and (3) — To prescribe the manner in which public and non-public money may be returned or repaid.

Section 26(2) — To prescribe the form of payment requisitions documentation.

Section 29(2) — To govern the destruction of cheques and other instruments of payment.

Section 31(1) — To authorize the making of accountable advances.

Section 35 — To authorize payment of contract holdbacks.

Section 53 — To govern the custody and control of public property.

Section 70(3) — To prescribe the form of crown corporation budgets.

Section 98(2) — To govern the operations of the Public Officers Guarantee Account.

In addition to these regulatory powers, the Financial Administration Act gives Treasury Board authority to act in a number of other areas:

Section 24 — To establish allotments within each appropriation which shall not be varied without Treasury Board approval.

Section 25 — To prescribe the form in which commitment records will be maintained.

Section 28 — To direct the form and manner of authentication of payment instruments.

Section 95 — To authorize the retention or set-off of amounts due against any indebtedness to the Crown.

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Treasury Board is also responsible for making recommendations to the Governor in Council in the following areas:

Section 13 — Fees or charges to be made for a service or use of a facility.

Section 17 — Remission of any tax, fee or penalty.

Section 18 — Deletion of debts from the accounts.

Section 52 — Transfer, lease or loan of public property.

Parts IX and X — Assignments of debts due by and to the Crown.

Under Part VIII of the Act, Treasury Board has a number of other statutory responsibilities in respect of crown corporations.

2. Minister of Finance

The general authority of the Minister of Finance in respect of financial administration is given in Section 9 of the Financial Administration Act. This section reads as follows:

- 9 — “The Minister has the management and direction of the Department of Finance, the management of the Consolidated Revenue Fund and the supervision, control and direction of all matters relating to the financial affairs of Canada not by law assigned to the Treasury Board or to any other Minister.”

In addition, the Minister of Finance has authority in a number of areas concerning the buying, holding or selling of securities, management of the public debt, the form of the Public Accounts, and crown corporations.

3. Receiver General

Section 6 of the Department of Supply and Services Act states that the Minister of Supply and Services is the Receiver General of Canada and shall exercise all the duties, powers and functions assigned to the Receiver General by law.

Significant statutory responsibilities of the Receiver General are set forth in the Financial Administration Act. His responsibilities for cash receipts and disbursements are found in the following sections:

- 11(1) — “Subject to this Part, all public money shall be deposited to the credit of the Receiver General.
- (2) — The Receiver General shall establish, in the name of the Receiver General, accounts for the deposit of public money with such banks and fiscal agents as are designated by the Minister (of Finance).”
- 28(1) — “Every payment pursuant to an appropriation shall be made under the direction and control of the Receiver General by instrument, in such form and authenticated in such manner as the Treasury Board directs.”
- 29(1) — “Every instrument issued under section 28, when paid, shall be delivered into the custody of the Receiver General for examination and adjustment with the statements of instruments issued.”

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The Receiver General's responsibility for the central accounts of the government are set forth in Section 54 as follows:

- 54(1) — "Subject to regulations of the Treasury Board, the Receiver General shall cause accounts to be kept in such manner as to show
- (a) the expenditures made under each appropriation;
 - (b) the revenues of Canada; and
 - (c) the other payments into and out of the Consolidated Revenue Fund.
- (2) — The Receiver General
- (a) shall cause accounts to be kept to show such of the assets and direct and contingent liabilities of Canada, and
 - (b) shall establish such reserves with respect to the assets and liabilities,
- as, in the opinion of the Minister (of Finance), are required to give a true and fair view of the financial position of Canada."

The Receiver General's responsibility for preparing the Public Accounts is set forth in Section 55 which states:

- 55(1) — "A report, called the Public Accounts, shall be prepared by the Receiver General for each fiscal year. . ."

Other responsibilities of the Receiver General cover the acknowledgement of assignment of debts due by the Crown, the recovery of public money improperly retained, and the offsetting of debts due the Crown against amounts payable by the Crown.

4. Department of Supply and Services

The responsibilities of the Department of Supply and Services for providing accounting and related services have, with subsequent directions, been established by the Department of Supply and Services Act (RS 1970).

- 7(1) — "The Minister shall provide such administrative and other services required for the disbursement of pay to persons employed in or by any department and to persons employed in or by other portions of the public service of Canada as the Governor in Council may direct from time to time.
- (2) — The Minister shall provide such administrative and other services in relation to employee benefit plans and superannuation or pension plans as may be required of him from time to time by the Governor in Council.
- (3) — The Minister shall provide, on the request of a department, any or all of the following services, namely:
- (a) management consulting services;
 - (b) data processing services;
 - (c) accounting services;
 - (d) auditing services;
 - (e) financial services; and
 - (f) such other services of any kind as are within the duties, powers and functions of the Minister."

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Where these allocated functions are of a service nature, responsibility for the effectiveness of services provided is shared by the Department of Supply and Services and the departments being serviced. However, the department being serviced should take whatever steps are necessary to ensure the adequacy of the products of the service.

5. Auditor General

The responsibilities of the Auditor General are set forth in Part VII of the Financial Administration Act. The main responsibilities of the Auditor General in the area of financial administration are covered by the following sections:

- 58 — “The Auditor General shall examine in such manner as he may deem necessary the accounts relating to the Consolidated Revenue Fund and to public property and shall ascertain whether in his opinion
- (a) the accounts have been faithfully and properly kept;
 - (b) all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the revenue;
 - (c) money has been expended for the purposes for which it was appropriated by Parliament, and the expenditures have been made as authorized; and
 - (d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.”
- 61(1) — “The Auditor General shall report annually to the House of Commons the results of his examinations and shall call attention to every case in which he has observed that
- (a) any officer or employee has wilfully or negligently omitted to collect or receive any money belonging to Canada,
 - (b) any public money was not duly accounted for and paid into the Consolidated Revenue Fund,
 - (c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by Parliament,
 - (d) an expenditure was not authorized or was not properly vouched or certified,
 - (e) there has been a deficiency or loss through the fraud, default or mistake of any person, or
 - (f) a special warrant authorized the payment of any money,
- and to any other case that the Auditor General considers should be brought to the notice of the House of Commons.”
- 62 — “The Auditor General shall, whenever the Governor in Council or the Treasury Board directs, inquire into and report on any matter relating to the financial affairs of Canada or to public property and on any person or organization that has received financial aid from the Government of Canada or in respect of which financial aid from the Government of Canada is sought.”
- 63 — “Whenever it appears to the Auditor General that any public money has been improperly retained by any person, he shall forthwith report the circumstances of such cases to the President of the Treasury Board.”

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6. Departments and Agencies

The Financial Administration Act specifically assigns certain major responsibilities in the area of financial administration either to ministers or deputy heads of departments and agencies.

- 24(4) — “The deputy head or other person charged with the administration of a service. . . shall ensure by an adequate system of internal control and audit that the allotments. . . are not exceeded.”
- 25(1) — “No contract or other arrangement providing for the payment of money by Her Majesty shall be entered into or have any force or effect unless the deputy head or other person charged with the administration of a service for which there is an appropriation by Parliament or an item included in estimates then before the House of Commons to which such payment will be charged certifies that there is a sufficient unencumbered balance available out of such appropriation or item to discharge any commitments under such contract or other arrangement that would, under the provisions thereof, come in course of payment during the fiscal year in which the contract or other arrangement was entered into.
- (2) — The deputy head or other person charged with the administration of a service for which there is an appropriation by Parliament or an item included in estimates then before the House of Commons shall establish and maintain or cause to be established and maintained on his behalf a record of commitments chargeable to each such appropriation or item in such form as the Treasury Board may prescribe.”
- 26(1) — “No charge shall be made against an appropriation except upon the requisition of the appropriate Minister of the department for which the appropriation was made, or by a person authorized by him in writing.”
- 26(3) — “No requisition shall be made pursuant to subsection (1) for a payment that
 - (a) would not be a lawful charge against the appropriation;
 - (b) would result in an expenditure in excess of the appropriation; or
 - (c) would reduce the balance available in the appropriation so that it would not be sufficient to meet the commitments charged against it.”
- 27 — “No payment shall be made for the performance of work, the supply of goods or the rendering of services, whether under contract or not, in connection with any part of the public service of Canada, unless, in addition to any other voucher or certificate that is required, the deputy of the appropriate Minister, or another person authorized by such Minister certifies
 - (a) that the work has been performed, the goods supplied or the service rendered, as the case may be, and that the price charged is according to contract, or if not specified by contract, is reasonable; or
 - (b) where a payment is to be made before the completion of the work, delivery of the goods or rendering of the service; as the case may be, that the payment is in accordance with the contract.”

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CHAPTER III — MANAGEMENT OF THE FINANCIAL FUNCTION

DIRECTIVES

- *Each deputy head shall designate a senior officer to be responsible for departmental systems of financial administration.*
- *Financial officers shall design and operate systems of financial administration and exercise their functional responsibilities with a high degree of professional integrity.*
- *The senior officer responsible for departmental systems of financial administration shall give functional direction on behalf of the deputy head to responsibility centre managers and to subordinate financial staff of these managers to ensure that financial responsibilities are being properly exercised.*

GUIDELINES

- *The senior officer responsible for departmental systems of financial administration should:*
 - *as a member of the departmental executive group, advise the deputy head and his staff on the needs of the department in the area of financial administration and on the financial implications of their decisions both at the planning and operational stages;*
 - *advise on the application of legislative, regulatory and other financial requirements of Parliament and central agencies to his department;*
 - *direct the design, communication and maintenance of systems of financial administration;*
 - *provide guidance on the organization, staffing and training of financial units capable of providing the financial services and functional guidance required by managers at all levels; and*
 - *review performance evaluations of financial officers throughout the department made by the managers to whom these officers report.*
- *Financial manuals, supplemented where appropriate by directives, instructions and circular letters, should be issued and maintained to ensure that all participants in departmental financial administration clearly understand financial procedures and responsibilities.*

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TREASURY BOARD

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MANAGEMENT OF THE FINANCIAL FUNCTION

A. INTRODUCTION

This Guide is concerned with financial administration, not solely with those organizations directly providing financial services. Many aspects of financial administration are the responsibility of responsibility centre managers assigned financial authority, and others are provided by functional advisers other than those directly responsible for financial administration. Nevertheless, there must be officers in each department to whom the deputy head and other line managers look for financial advice and to whom they assign responsibility for ensuring that the systems of financial administration are both effectively and efficiently designed and operated. Such officers are a vital link in the structure of financial administration. Unless they carry out their responsibilities with integrity and a proper degree of functional independence, the necessary means of ensuring the accountability of each officer to whom financial responsibility is delegated will be missing.

The legal responsibilities for financial administration at both central agency and departmental levels were identified in the preceding chapter. In this chapter, the roles of responsibility centre managers and financial officers in departmental systems of financial administration, and the organizational arrangements and methods of communication suitable for use by financial officers in the management of the financial function are described.

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B. ROLE OF RESPONSIBILITY CENTRE MANAGERS

As indicated above, many aspects of financial administration are the responsibility of the responsibility centre managers to whom financial authority is assigned. The basic role of these officers is to manage the human and physical resources, for which they spend financial resources, to obtain outputs or benefits which are consistent with and contribute to the program objectives of the department or agency. They are called upon to perform this role in a manner which maximizes benefits and minimizes costs. The responsibilities of such managers in departmental systems of financial administration are discussed throughout this Guide and are summarized below under headings which identify the chapters of the Guide in which they appear:

Classification of Accounts

- Identifying, within their areas of responsibility, the various projects, processes and operations for which cost and output data can be meaningfully utilized if captured in the accounting system.

Budget Preparation

- Forecasting in relation to planned accomplishment, physical resources for which finances are required.

Financial Reporting

- Informing financial officers of requirements with respect to the format, content and timeliness of financial reports.
- Utilizing financial reports in the management of their operations and reviewing the reports to see that they are in line with known events.

Budgetary Control

- Explaining the causes of significant variances between planned and actual costs in relation to outputs, and initiating appropriate action to obtain additional resources, reduce costs or increase efficiency in response to problems indicated by variances.

Accounting for Expenditure

- Identifying the cost information they require and verifying that the methods of cost allocation used are in keeping with observable facts.

Financial Control of Expenditures

- Exercising delegated spending authority for entering into commitments, incurring expenditures, and confirming satisfactory contract performance under Section 27 of the Financial Administration Act.

Accounting and Control of Revenue

- Ensuring that billing action is taken where goods or services are provided on a cost recoverable basis.
- Participating with financial staff in setting billing rates.
- Assisting in the follow-up and collection of delinquent accounts receivable.

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Financial Audit

— Taking corrective action on audit findings and recommendations.

Responsibility centre managers are also responsible for directing the activities of financial staff who are assigned to support them. Their financial staff, although having a functional reporting relationship to more senior financial officers, are directly responsible to them for providing functional guidance and services. Responsibility centre managers are primarily responsible for preparing evaluations of the performance of the financial staff whom they direct, although they should consult with the functional supervisors of their staff to the extent required and refer to them their evaluations so that appropriate action can be taken to remedy weaknesses or to utilize strengths.

Responsibility centre managers may also be supported by functional specialists in the area of materiel management. Where this is the case, they should encourage a close working relationship between staff in the materiel management and financial administration functions. They must, however, recognize that as line managers they have primary responsibility for the efficient and economic custody and control of materiel in accordance with Treasury Board Management Improvement Policy No. MI-1-65, Guide for Materiel Management in Government, amended by Circular No. 1968-25.

Line management also has primary responsibility for the management of non-inventory assets as well as of departmental liabilities. Financial staff can assist in these areas through the design and application of control systems, maintenance of appropriate records and provision of historical and analytical information, but continuing reviews of the types and levels of both assets and liabilities in relation to operational requirements and departmental objectives should be carried out by line managers.

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C. ROLE OF FINANCIAL OFFICERS

In any system where authority is delegated, those delegating authority remain accountable for their subordinates. Thus, they must have assurance that the system of financial administration discloses what their subordinates are doing so that they can control their actions to the extent required.

The growth of large organizations in the private sector has been facilitated by financial systems that disclose results to investors, creditors, and public authorities; by financial reports that receive greater credibility because of the statutory requirement for an independent audit; and by various financial and other techniques that enable control to be maintained over large diverse organizations, often dispersed around the world.

Financial systems in government should operate with equal if not greater effectiveness, because managers are using public funds to provide services through equally large and complex organizations. This level of effectiveness is possible if financial officers in government perform their duties with a degree of integrity and independence that will give the system the necessary degree of credibility.

This places financial officers in a difficult role. They must strike a proper balance between their responsibilities to those to whom they directly report and their broader responsibilities for establishing that sense of confidence in the system of financial administration which is so essential to delegation of financial authority, particularly in a public environment. In providing functional guidance, financial officers are expected to demonstrate a high degree of professional initiative and ability in advising departmental management on the acquisition and utilization of financial resources. At the same time, they must apply a high degree of professional integrity to ensure that proper prudence and probity is exercised in spending public funds, that a proper accounting is rendered on the utilization of financial resources and that the financial results of departmental programs and activities are made fully visible.

Financial officers should be responsible for the following matters which are discussed at greater length in the remaining chapters of this Guide and are therefore only summarized here under the relevant chapter headings.

Classification of Accounts

- Designing and keeping up to date a classification of accounts which provides a framework for gathering and making visible all the financial information that Parliament, central agencies and departments need to know on the purposes of, responsibility for, and nature of resources involved in financial transactions.

Budget Preparation

- Co-ordinating and assembling financial data for use in preparing budgets, and for ensuring that such data are reasonably accurate.
- Preparing guidelines for budget preparation including passing on instructions, identifying the types and levels of activity planned, constraints to be recognized, unit costs, costing formulae, forms and methods to be used, and timetable to be respected.
- Reviewing budgetary submissions to verify costs and to ensure that all instructions have been followed.
- Converting cost-based budgetary requirements to net cash requirements for inclusion in estimates submissions.

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Budgetary Control

- Maintaining records to ensure that appropriation and allotment limits are not exceeded.
- Forecasting cash requirements.
- Assisting operational managers in analyzing and explaining budgetary variances in terms of price, volume and efficiency.

Financial Reporting

- Designing and providing financial reports to managers which are simple, timely, accurate and consistent, and which meet their needs for financial information, including information on budgetary variances.
- Co-ordinating and consolidating information for reporting in the Public Accounts.

Accounting for Expenditures

- Designing and operating accounting and internal control systems.
- Establishing standards and techniques for cash, commitment, accrual, and cost-based accounting.
- Identifying the needs for cost information and recommending and implementing techniques to generate such information.
- Supporting management by analyzing and interpreting cost information.
- Maintaining financial control over inventories and other assets to the extent required.
- Designing coding techniques that provide with reasonable ease all the information required.

Financial Control of Expenditures

- Exercising payment authority under Section 26 of the Financial Administration Act with the attendant review of legality of payments and testing of statutory financial controls.
- Maintaining a record of and communicating all financial signing authorities granted by ministers and deputy heads.

Accounting and Control of Revenue

- Seeing to the claiming, accounting and collection of revenue and other receipts, and the safeguarding of public monies.

Financial Audit

- Advising on the coverage and scope of financial audits.
- Acting on recommendations arising from financial audits.

In many instances, officers will not be assigned full-time financial roles, and will be required to take responsibility for other administrative functions, such as materiel management, personnel, information systems and administrative support services. This may be true both at the highest level where the senior financial officer advising the deputy head on financial matters may have an

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“administration” title, and at the lowest level where the officer may be known as an administrative officer or an office manager. It must be emphasized that, whatever their titles, officers when performing financial responsibilities must accept functional guidance from those to whom the deputy head has delegated his responsibilities for financial administration.

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D. ORGANIZATIONAL ARRANGEMENTS

The need for financial organizations within a department will depend upon the manner in which financial responsibilities are assigned to operating managers. Financial staff may be found at the following levels:

- the departmental level, to support the deputy head and those providing central direction or services in a department;
- the program level, to support the program head and his advisers and to interpret and apply departmental requirements in a manner that satisfies the unique needs of each program;
- the regional and district levels, whenever it is necessary to decentralize financial responsibilities to match operational and service requirements; and
- the responsibility centre level, where assistance is often needed if the manager at that level is to play his vital role in the system of financial administration without undue encroachment on his other responsibilities.

The need for and exact responsibilities at each of these levels will vary, and this will be reflected in organizational relationships, as well as in numbers and types of staff that will be required. In smaller departments without highly decentralized programs, one senior financial officer may be called upon to service both the deputy head and the program managers. He would of course be supported by the necessary supporting staff of financial officers and clerks.

Where financial staff are dispersed to program and field levels, few departments will wish to place all such staff under the line direction of the senior financial officer and will prefer that he have functional, not line authority, over them. This relationship is shown in the "Illustration of Functional Authority of Financial Officers" on page 3.9.

The responsibilities of financial organizations at various levels in a department are discussed in greater detail in the following sections.

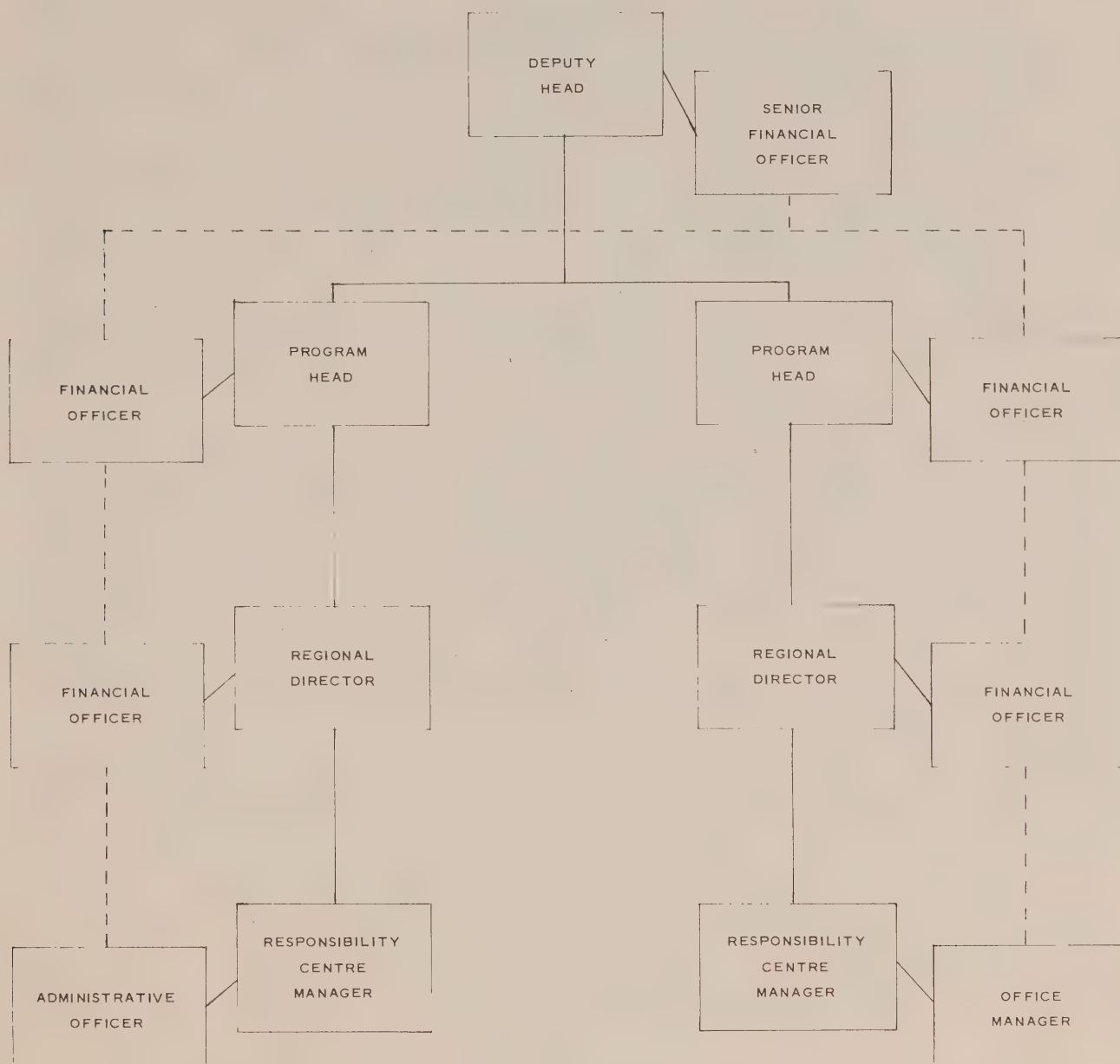
1. Financial Organizations at the Departmental Level

Each deputy head is required to designate a senior officer to be responsible for departmental systems of financial administration and for providing advice directly to him on financial administration. Because there must be a limit on the officers reporting directly to the deputy head, this may be an assistant deputy minister — finance and administration, who in turn is advised by a director of financial services, departmental comptroller or some similarly designated individual. It should be recognized, however, that there are some dangers in combining financial administration with broader administrative responsibilities, the most serious being that the officer filling the position will fail to recognize the control aspects of financial administration when he has other responsibilities of a purely service nature. Where administrative and financial responsibilities are combined, every effort must be made to avoid the danger of such an officer abdicating his responsibilities to his supporting advisers and so becoming a barrier to communication of financial concerns to the officers he supports.

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ILLUSTRATION OF FUNCTIONAL AUTHORITY OF FINANCIAL OFFICERS



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MANAGEMENT OF THE FINANCIAL FUNCTION

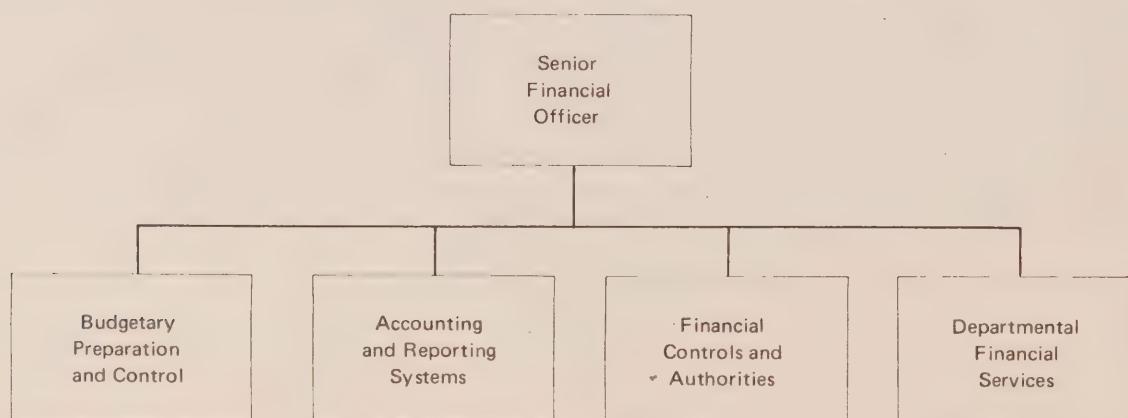
The senior officer responsible for the functional direction of financial administration systems should:

- as a member of the departmental executive group, advise the deputy head and his staff on the needs of the department or agency in the area of financial administration and on the financial implications of their decisions both at the planning and operational stages;
- advise on the application of legislative, regulatory and other financial requirements of Parliament and central agencies to his department;
- direct the design, communication and maintenance of systems of financial administration;
- provide guidance on the organization, staffing and training of financial units capable of providing the financial services and functional guidance required by managers at all levels; and
- review performance evaluations of financial officers throughout the department made by the managers to whom these officers report.

Membership in the executive group recognizes the senior officer's role as a participating member of the management team. The officer must be fully committed to the department's programs and be willing to accept a share of the responsibility for them. His membership in the executive group allows him the opportunity to gain the support of top management for the financial procedures falling within the responsibility of the central financial organization.

In departments with financial organizations at the program level, the central departmental financial organization should have minimal operating financial responsibilities. In addition to providing financial services directly to those headquarters organizations which it supports, the departmental organization should be directly responsible for the financial portion of departmental budgetary submissions including appropriate financial analysis, for appropriation and allotment control, for consolidating departmental reports, for the design and implementation of adequate accounting and internal control systems, for acting as a final departmental court of appeal for financial transactions questioned at lower levels, for identifying financial audit requirements and for taking action to correct deficiencies indicated by such audits. The departmental organization should be establishing and evaluating financial policies, systems and procedures; financial operations should take place primarily at the program and field level.

In most departments, the senior full-time financial officer should have four groups reporting to him — a group responsible for budgetary preparation and control, a group responsible for accounting and reporting systems, a group responsible for financial controls and authorities, and a group responsible for servicing those central units of the department not serviced by program or field financial officers. This arrangement is illustrated below.



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Each of the first three groups should be involved in establishing, communicating and evaluating financial policies and procedures within their areas of responsibility. In smaller departments one group could be responsible for more than one of these functions.

A vital element of an effective financial management system is trained personnel. Assessment of departmental financial training needs, and action thereon, is extremely important if those providing financial services throughout the department are to have their functional advice respected. In addition, the success of the senior financial officer and the staff under his functional direction depends to a great extent on their professional knowledge and their ability to relate their knowledge to the operational and management environment of their department or agency. To discharge their responsibilities satisfactorily, they require basic qualifications in financial administration acquired through a combination of experience and formal professional training, as well as a good working knowledge of current developments in financial management in both the public and private sectors. Each financial officer should be prepared to contribute his own time and effort to his professional development, but departments also have a responsibility to further this development by providing formal and on-the-job training programs which meet the needs of both the individual officer and the financial organization.

Treasury Board and the Public Service Commission have recognized the requirement for formal training and development programs for financial officers and have developed courses in financial management suitable for both junior and senior financial officers. Departments are encouraged to utilize these courses as well as suitable courses available from other organizations. In planning training for financial staff, the senior financial officer should not overlook the needs of junior or clerical staff. In addition, he should consider exposing some of his officers to courses in such areas as general supervision and management, quantitative analysis, and electronic data processing, which, while not necessarily contributing directly to their immediate duties, will broaden their perspective and prepare them for future assignments with greater responsibilities.

Training should be provided by all departments to responsibility centre managers to familiarize them with their financial responsibilities as well as the financial services available to them. This is particularly important when major changes are being made in departmental systems of financial administration. Where such training is provided by departmental financial staff, a good opportunity is provided for financial officers to obtain constructive criticism from line managers on the adequacy of financial systems.

2. Financial Organization at the Program and Field Level

The heads of financial organizations at the program and field level should have much the same relationships to the senior line officer they support as the senior departmental financial officer has to the deputy head. They will also be involved in interpreting and adapting departmental policies, systems and procedures to satisfy unique program and field requirements, but they should not seek to play the same evaluative role as the financial organization at the departmental level.

Program and field financial organizations normally will have more extensive operating responsibilities. Responsibility for budgetary review, for appropriation and allotment control and for review of budgetary variances should be placed primarily at these levels to support program managers. Since the majority of the department's payment transactions will occur at the program or regional level, the program and field financial officers will usually be delegated payment authority and will be directly responsible for revenue and asset control.

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3. Financial Organization at the Responsibility Centre Level

Except where responsibility centres have major financial responsibilities, it is not likely that they will have full-time financial staff; financial duties will be assigned to other staff who support the responsibility centre manager in several functional areas. In the financial area, the supporting role will involve:

- assisting line managers in preparing their budgetary submissions;
- analyzing reported budgetary variances;
- reviewing expenditure transactions on behalf of officers having spending authority;
- maintaining memorandum records of outstanding liabilities and commitments and inputting them at period ends to the financial reporting system;
- claiming, collecting and depositing revenues and receipts; and
- such other supporting matters as may be required.

Normally, such staff will not be given responsibility for appropriation and allotment control, nor will they be given payment authority under Section 26 of the Financial Administration Act. Such responsibilities should be centralized at the program level in headquarters and at the regional or district level in the field to ensure a proper degree of functional independence.

Special care must be taken to establish clearly that supporting staff providing financial services at the responsibility centre level fall under the functional direction of the senior financial officer when performing financial duties, and that the same degree of functional independence and integrity is expected of them as of full-time financial officers at higher organizational levels. Because of their close association with the managers they support, there may be a tendency on their part to regard themselves as part of line management. Care should also be taken to ensure that they do not duplicate accounting and reporting efforts that are more economically and efficiently provided at a more central level. Financial practices at this level should be subject to the same internal evaluation as program and field financial organizations.

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E. COMMUNICATION OF THE SYSTEM OF FINANCIAL ADMINISTRATION

The efficient operation within government of a function such as financial administration, with its long chain of events and transactions and its interdependence with other functions and operational activities of departments, can be achieved only if the requirements of the system are adequately communicated to all persons involved, whether or not they form part of the financial administration staff.

1. Communication from Outside Departments

Communication of the financial system starts with Parliament and the Treasury Board. Procedural requirements may be mandatory as when prescribed in statutes, regulations and policy statements, directives or circular letters published under the authority of a T.B. Minute, or in manuals such as the Program Forecast and Estimates Manual. Optional matters, or requirements where departments may exercise a choice among alternatives, are included as guidelines in this Guide, in the Planning, Programming and Budgeting Guide, or in circular letters issued on an information basis. Certain matters which are the responsibility of the Minister of Finance may lead to the issue of circular letters or individual directions by the Department of Finance. Instructional material is also issued by the Department of Supply and Services relative to the statutory responsibilities of the Receiver General.

The Services Canada Authorities Manual (formerly the Treasury Manual of Financial Authorities and Procedures) issued on a service basis by the Services component of the Department of Supply and Services, comprises a useful compendium of financial policies, regulations, directives and instructional material issued by Order in Council at the request of Treasury Board, by the Treasury Board itself, by the Minister of Finance or by the Receiver General. It also includes explanatory material, executive rulings which constitute useful precedents, references to relevant legislation, and specific procedures followed by the Department of Supply and Services with which departmental procedures need to be made compatible.

2. Communication Within Departmentsa. Manuals

Within each department it is essential that many of the regulations, policies, directives and guidelines issued by the central agencies be amplified to meet departmental legislation and operational and financial requirements, and that the resulting material be distributed throughout the department through a medium which has a proper status and form. The only medium likely to meet all the criteria which are essential is a manual. The principal features of a manual system which establish its superiority over other media of communications are its continuity and the procedures used to keep it up-to-date. Where required, the manual may be supplemented by inserting in it directives, instructions, circular letters, etc., issued by branches and regions to meet the more specific requirements of individual program or field organizational components of the department.

The requirements of the financial administration system may be communicated throughout the department in a separate financial manual or incorporated into a comprehensive departmental manual. Where possible, it will be preferable to have a comprehensive departmental manual, since it is likely to have greater acceptance in all areas of the department. A further reason for a comprehensive manual is that separately issued manuals may differ in format, numbering, sub-division of subject matter, and style of writing and nomenclature, all of which may tend to make reference difficult for someone who must refer regularly to all or several of the separate manuals. Standardization of these items throughout a comprehensive manual facilitates ease of reference and comprehension.

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Whatever its form, the manual should be issued under the authority of the deputy head. Responsibility for all content in relation to financial administration should rest with the senior financial officer of the department, and he should, therefore, be consulted in the compilation of financial procedures included in operational or administrative manuals.

Appendix III-1 includes suggestions for the form and content of a departmental financial manual.

b. Other media

The manual should be the permanent compendium of all the basic financial systems and procedures of the department, but one or more forms of ancillary media may also be required to communicate temporary requirements.

In large departments having several programs of dissimilar nature, and where each program is carried out by completely separate branches, such branches should be authorized to issue supplementary manual pages to cover specific procedures applicable to only one program. Such pages should be issued only within the branch, apart from copies provided to central organizations who may need them. In some circumstances, departments may also find it advantageous to authorize regional management to issue supplementary pages to cover procedures required within a region. Such materials should be reviewed by the central financial organization to ensure compatibility with departmental procedures.

Other media which may be used are directives, instructions and circular letters. These should normally be regarded as performing a temporary function only, and should not involve any elaborate procedures for circulation or updating. Any requirement to update a directive or instruction should lead to considering it for inclusion in the manual.

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SUGGESTED FORM AND CONTENT OF A DEPARTMENTAL FINANCIAL MANUAL

1. Form of Manual

1.1 Design objectives:

- to facilitate quick reference;
- to provide the maximum degree of information and comprehension;
- to ensure content is relevant and current;
- to ensure proper control over the distribution of amendments and addenda.

1.2 Recommended format:

- loose-leaf type to facilitate the issue of amendments and additions;
- divided into chapters to cover the main recognized divisions of financial administration, these chapters being capable of sub-division into sections and sub-sections as required;
- main index at the beginning of the manual to indicate the content of each chapter;
- index at the beginning of each chapter to indicate the subject matter of each section and sub-section of the chapter;
- chapters numbered, with sub-numbering for the sections and sub-sections;
- pages printed in a standard format to show the subject and number reference of each chapter, section and sub-section;
- pages and amendment lists sequentially numbered and indicating the total number of pages covering the subject matter;
- each page to indicate the date of issue.

1.3 Chapter organization

To achieve a standard treatment throughout the manual, a further division of subject matter could be made within each section or sub-section. These divisions, which may be indicated by standard headings but need not be numbered, could include:

- authorities, covering references to relevant legislation, executive regulations, policies, directives or guidelines on the subject matter concerned;
- policy, covering the department's own policy for the implementation of legislative and executive requirements;
- definitions, covering the interpretation of terms and words used in dealing with the subject matter;
- procedures, covering the practices to be followed by the departmental personnel in order to achieve the objectives laid down in the policy;
- forms, covering standard forms which are to be used in the carrying out of the prescribed procedures.

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1.4 Style

Written material should be concise and to the point so that it can be readily understood by those to whom it is addressed. In addition to written material, it is essential that there be well-chosen supporting illustrations. This illustrative material should include items such as forms, flow charts, reporting formats and organization charts and should be located immediately adjacent to the relevant instructions.

1.5 Distribution of the manual

A key to the effectiveness of a manual is the efficiency of its distribution system. Such a system should include:

- written procedures for the initial and subsequent distribution of manuals and all amendments and addenda thereto;
- careful determination of the positions, rather than individuals to which manuals will be issued, ensuring that manuals are not removed when incumbents of positions change;
- the serial numbering of manuals and maintenance of a distribution record showing the number of the copy issued to each position, as a basis for mailing all amendments and addenda;
- provision for re-examination and amendment of distribution records when reorganizations of positions occur.

1.6 Amendments and addenda

Manuals can be effective only if all copies of manuals in use are kept up-to-date so that amendments are read by all who need to be aware of them. Procedures to ensure that manuals are kept up-to-date should include:

- transmittal of all amendments and addenda under cover of a distribution letter to be filed at the front of the manual after it has been acted on;
- removal of the previous distribution letter from the manual, after confirming that the new distribution letter is the next in sequence to that previously filed;
- distribution of a check list of the date of current manual pages on an annual basis;
- inclusion in the manual of any special procedures issued under the authority of some other medium as soon as the permanence of that procedure has been decided upon;
- regular reviews of all material in the manuals as well as new matters for inclusion jointly by users and those personnel normally engaged in the preparation of manual material.

2. Manual Content

2.1 The content of a financial administration manual will vary considerably from department to department according to the requirements of departmental programs and the manner in which they are implemented. It is expected that the following subjects would be included:

- description of the departmental system of financial administration including its role in serving both departmental and governmental requirements;

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- descriptions and charts of financial organizations, showing their relationships with other departmental organizations, and identifying the responsibilities of both financial and line officers for financial administration;
- charts showing approved delegation of financial signing authorities;
- planning and program forecast procedures;
- estimates procedures;
- budget allocation procedures, including interim supply and budget change procedures;
- commitment records and procedures;
- cash forecasting procedures;
- codes of accounts and coding procedures;
- methods for verification of accounts and requisition of payments, with special procedures for such items as travel and removal claims, special program payments and journal vouchers;
- instructions for accounting control of inventories, equipment and other assets;
- procedures for accounting and control of revenues and receipts including interdepartmental settlements;
- financial reporting and variance analysis procedures.

2.2 In addition, most departments will need to cover one or more of the following as required by departmental programs:

- cost accounting for products and services;
- revolving funds, working capital advances and special accounts;
- grants and contributions;
- federal-provincial financial arrangements;
- loans and advances.

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CHAPTER IV — CLASSIFICATION OF ACCOUNTS

DIRECTIVES

- *Within each appropriation approved by Parliament, the departmental classification of accounts shall be a three-fold classification:*
 - *first, by activity element to make visible the costs of obtaining the output or benefits to be derived from expenditures;*
 - *second, by responsibility centre to identify who is accountable; and*
 - *third, by object of expenditure to provide a means of controlling the acquisition and utilization of resources.*
- *Departmental activity structures shall be sub-divided to the point where the basic or lowest levels, the activity elements, identify the costs of the processes and/or projects which are carried out to attain a program's objectives. This is to ensure that financial information is available wherever there is an identifiable output to which costs can be usefully and meaningfully related for purposes of determining cost effectiveness and efficiency.*
- *Departmental objects of expenditure shall be capable of aggregation to the reporting and standard objects designated by Treasury Board and the economic objects required for governmental statistical purposes. Data on objects of expenditure are required not only for managerial control at the operating level, but also to facilitate cost and economic analysis by Treasury Board and other central agencies.*
- *To ensure effective control and information, departmental classifications of accounts shall make provision for recording assets and liabilities, even though such assets and liabilities may not be accounted for in the central accounts nor appear in the Statement of Assets and Liabilities of the Government of Canada.*

GUIDELINES

- *The activities and sub-activities, which are submitted to Treasury Board for approval for use in Program Forecast and Estimates submissions, should be capable of being accurately costed by aggregating activity element costs without arbitrary allocation techniques. This is to ensure that the activities and sub-activities are satisfactory for purposes of control and accountability and provide an accurate foundation for supplementary analysis.*
- *Administrative activity elements should be included as part of the programs and activities that they support wherever there is a direct, accurate and objective basis for cost allocation. Wherever included, they should be identified on a consistent basis within a program so that the aggregate cost of significant administrative operations or processes in the program can be computed.*
- *The responsibility of managers should be clearly assigned in terms of activity elements so that financial accountability coincides with operational responsibility.*

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CLASSIFICATION OF ACCOUNTS

A. INTRODUCTION

In any accounting system, the classification of accounts determines the manner in which financial data are identified, aggregated and reported for purposes of planning, resource allocation, management control and results evaluation. In government accounting, the development of a classification of accounts is dictated by the need, first, to provide data in the form required centrally for presentation of the accounts of Canada, and second, to provide the detailed information necessary at the departmental level.

No single classification system is capable of providing for all these requirements, but this is not a problem because modern accounting technology permits the use of a multiple classification system, and multiple levels of detail within each classification system, for the same data. It is now relatively easy to retrieve and report data in a number of different ways provided that individual transactions are properly and adequately identified.

The first directive for a classification of accounts calls for a three-fold structure:

- an activity structure to identify the purpose of transactions;
- a responsibility structure to identify responsibility for transactions; and
- an object of expenditure structure to identify the nature of the resources acquired.

The activity classification provides a hierarchical breakdown of the costs of each program by activities, sub-activities, etc. down to the basic activity element level where the operations, processes, services, projects, tasks, etc., are identified, all of which identify at various levels of aggregation the purposes for which funds are spent to attain program objectives.

The responsibility classification reflects the hierarchical organizational structure from the highest level of managerial responsibility where a single officer is responsible for a program to successively lower levels of delegated responsibility, thereby identifying who is responsible and accountable for spending funds provided by Parliament.

The object-of-expenditure classification is also a hierarchical structure which identifies the nature of the items on which expenditures are made — i.e. the input of goods, equipment and services purchased for the operation of the program — starting at the top with the standard objects reported to Parliament, with further sub-division by reporting objects and departmental objects, the latter being translatable into economic objects for the purpose of socio-economic analysis.

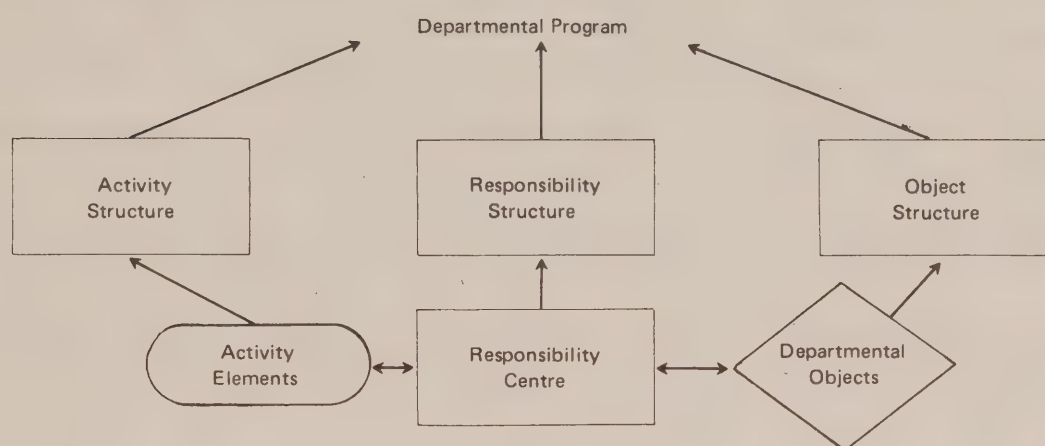
These three classification structures are linked together through an integrated coding system which requires each transaction to be identified in terms of each classification, thereby facilitating subsequent analysis of financial data and making it possible to cross over from one type of categorization to the others. A responsibility centre expenditure can be identified both in terms of activity elements contributing to the program's objectives and in terms of departmental objects. Similarly, departmental objects can be identified both in terms of their allocation to responsibility

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centres and in terms of their use to carry out activity elements. Finally, the activity elements necessary to attain a program's objectives can be identified both in terms of the responsibility centres to which they are assigned and in terms of the departmental objects required for their attainment.

The relationship between each of these structures is indicated in the following diagram.



The three structures described above culminate in a departmental program which provides the basis for the vote structure through which Parliament appropriates funds for use by departments. Each departmental program must consist of at least one parliamentary vote.

The departmental program is also the link between the departmental classification structures and the functional classification of government expenditures adopted by Treasury Board for use in allocating resources. This functional classification structure, which consists of three tiers identified as functions, sub-functions and functional programs, is further described in Appendix A to the Planning, Programming and Budgeting Guide. It should be noted that a departmental program does not necessarily fall entirely within a functional program; some departmental programs are apportioned among functional programs to permit functional data to be disclosed more accurately than would be possible if each departmental program had to be allocated in its entirety to a single functional program. Since a program is by definition a group of activities, all of which are directed to the achievement of the objective or set of objectives of the program, it follows that the clear identification of departmental objectives is fundamental to the design of the activity structure for each departmental program.

The next three sections of this chapter provide guidance on various activity, responsibility and object-of-expenditure classification structures. A further two sections provide guidance on appropriate systems of classifying revenues and assets and liabilities. A clear understanding of the nature and interrelationship of these structures is essential to the design and operation of a system which will satisfy departmental needs for financial information.

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B. ACTIVITY CLASSIFICATION OF EXPENDITURES

1. Departmental Programs

A program is a major departmental operation designed to achieve specified objectives for the department that have been authorized by Parliament. A program should be:

- described so as to give Parliament, the executive and management a clear insight into its purpose and objectives;
- authorized by legislation;
- complete in itself so as to make possible the determination of its total cost; and
- capable of assignment as far as possible to a specific person who can be held accountable for achieving its purpose.

A program is the level at which Parliament votes funds. It can include operating expenditures, capital expenditures and grants and contributions. Each departmental program is financed by at least one vote, but more than one vote is required where either capital expenditures or grants and contributions exceed \$5 million. If more than one vote is required for a program, supporting information on all votes applicable to the program is presented together in the estimates so that Parliament is aware of the total expenditures of the program.

2. Activities

The term "activity" is used to refer to the first division of a program. Since programs embrace sizable areas of government operations requiring the expenditure of many resources, details on programs are provided to Parliament in terms of activities.

A number of desirable attributes for "activities" are set out in the Planning, Programming and Budgeting Guide:

- the activity structure within a program must be designed to assist resource allocation decisions which are made within the department on the basis of analysis as well as outside the departments by ministers collectively as members of the Treasury Board and Cabinet;
- as the activities of a department are the headings under which the department should negotiate for funds with the Treasury Board, the headings must be those under which requirements can best be explained and the benefits forecast;
- the activities of a department must provide the focus for planning by the department in deciding how to achieve its program objectives independent of the organization structure used to execute it;
- in order to avoid having too many activities, each activity should involve the largest set of projects or operations possible; and
- for the activity to be meaningful, the mix of projects or operations within it should be homogeneous in character.

In some programs, the primary division into activities can satisfy these attributes, but in large programs it is normally necessary to break down the program by even further sub-division into sub-activities or sub-sub-activities before all the above criteria for activities are fully satisfied.

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The tendency for departments to assume that the criteria provided in the Planning, Programming, Budgeting Guide apply only to the first level of sub-division below the program level has caused confusion in departments and has resulted in the primary sub-division of the program often being of limited usefulness even though it may satisfy many of the criteria set forth in the Guide.

The primary division, which represents the activities disclosed to Parliament, should disclose information that is meaningful to Parliament, not operational details primarily of interest to departmental management. Nevertheless, unless the aggregate data can be related to the operations that take place, it is highly unlikely that the data submitted to Parliament will be meaningful or that the costs included therein will be sufficiently accurate to be relied upon.

3. Activity Elements

Departmental activity structures must be sub-divided to the point where the basic or lowest levels, or activity elements, are the processes and projects carried out to attain a program's objectives. This is to ensure that financial information is available wherever there is an identifiable output for which costs can be determined.

With the existence of cost data related to operational output this level provides a basis for operational control and evaluation of efficiency. As the lowest level at which benefits can be quantified, and budgets therefore justified, it also provides a useful basis for aggregation. This is because operational outputs can be related to program objectives of interest at higher levels. Thus activity elements may be thought of as the basic building blocks of the budgeting and accounting processes.

Some departments use terms such as "operations" to refer to processes, and terms such as "tasks" or "problem areas" to refer to projects. Normally, if both processes and projects exist within the same activity structure, a process will be an activity element which together with a number of other processes, also activity elements, contributes to one or more projects which are aggregated at a higher level in the activity structure.

While the problems and expenses of cost determination and allocation at the activity element level must be taken into account they should not dictate the design of the system. If output data to measure results are available, cost determination techniques should be developed to gather financial data. Even the absence of any final output which is measurable should not negate this approach; in many cases an analysis of component tasks will identify areas of intermediate output for which indicators can be developed. In this connection, departments should recognize that where output is difficult or impossible to measure in terms of completed units of production a suitable alternative may be to provide measures in terms of units of time applied to the productive process. Information on costs per man-hour, man-day etc. is not generally as useful to management as information on costs related to units of product, but it can contribute significantly to management's appreciation of the costs of operations.

The activity element, or basic building block, is particularly useful when the same process is carried on in a number of organizational units. It then becomes possible to develop work standards which can be used for both budgeting purposes and for operational control, and it also permits the performance of responsibility centre managers to be compared. Where costs can be related to output, it is also possible to provide convincing data for purposes of negotiating resource requirements.

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Because activity elements may often be very fine sub-divisions of a program, it is usually necessary to aggregate them at several levels before arriving at the activities disclosed in the Estimates. The best method of aggregation is not always easy to perceive, because many activity elements may contribute to more than one objective or sub-objective of the program. The needs of successively higher levels of departmental management and of Treasury Board for meaningful levels of aggregation for purposes of planning, resource allocation and evaluation of effort should dictate the system of aggregation used. It should be recognized that while at any point in time a single structure may have to be settled upon for reporting to Parliament and Treasury Board, this need not limit a department's ability to aggregate data in alternative ways. If activity elements are properly identified, multiple methods of aggregation should be possible, thereby avoiding the blindness that might be caused by the use of any single system. For example, a single project or process may contribute to several objectives. The activity element has to be classified within the formal structures used by the department in submissions to Treasury Board, and this should be done in a manner that produces reasonably accurate aggregations of costs. This should not inhibit alternative methods of aggregation for purposes of internal departmental analysis and planning. These need not necessarily be as accurately determined as the costs used in the formal structure.

Some examples of activity structures are provided in Appendix IV-1.

4. Administrative Activity Elements

Administrative activities referred to in this section are as defined in Appendix C to the Planning, Programming, and Budgeting Guide and include all those financial, personnel, electronic data processing, legal and other services provided in support of departmental programs.

Departments vary in the manner in which they carry out administrative activities. In some departments administrative activities are centralized in single organizations while in others they are extensively decentralized, often resulting in a single administrative officer being responsible for the full range of administrative activities. These differences in approach make it difficult to compare administrative costs among organizations.

In most programs, "administration" is listed as a separate activity. Treasury Board does not at this time require or encourage arbitrary allocation of the cost of administrative and support activities to the programs and activities they serve. However, where administrative and support costs can be charged to a specific activity on a direct, accurate and objective basis, departments are encouraged to do so. Where this is the case, the basic administrative activity elements should be the same throughout the department, even though all administrative costs may not be aggregated to a single "administration" activity.

Treasury Board often requires departments to report administrative costs and other data periodically in order to obtain a comparison of costs among departments. The reporting requirements of Treasury Board will provide the minimum level of data that a department must have available, but departments should normally have greater detail available internally to control these types of costs. For this purpose, departments should strive for consistently determined administrative costs within each program.

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C. RESPONSIBILITY CLASSIFICATION OF EXPENDITURES

As stated previously, the achievement of a department's objectives requires a variety of operations to be performed. Operational tasks must be defined and assigned to managers who can ensure their effective execution. Clear assignment of responsibility is obviously important for many reasons, but it is particularly important for purposes of financial administration because it provides the framework for primary assignment of budgetary responsibility, for delegating financial authority, and for financial accountability.

Activity elements should be clearly assigned to responsibility centres so that financial accountability will coincide with operational responsibility.

It is not desirable in this Guide to discuss organizational principles or the organization of a department in any great detail. However, the following basic rules should be observed in the establishment of responsibility centres:

- the responsibility classification for financial purposes should correspond to the official lines of authority in the departmental organization;
- each centre's responsibility should be clearly defined in terms of activity elements for which they are responsible;
- a responsibility centre can share responsibility for a single activity or participate in more than one activity, but the extent of its contribution to each activity must be identifiable in terms of activity elements that can be costed; and
- no responsibility centre manager can be held equally accountable to more than one superior for the same activity, and thus his primary responsibility must be recognized in the responsibility classification, and distinguished from any functional responsibilities he may have.

Although there are advantages to be gained by making the responsibility structure and activity structure identical in terms of ease of cost allocation, this should not be the primary objective in designing either the responsibility or the activity structure. The responsibility structure should be based on the best means of carrying out an organization's responsibilities. Often this reflects a grouping of skills or a desire to provide a common focal point for those being serviced. Organizational structures should be designed so that responsibility centres have single purposes only when there are no compelling reasons to do otherwise.

Cost centres may be identified in addition to responsibility centres for purposes of satisfying the responsibility centre manager's needs for capturing costs and for evaluating operations of lower level organizational units. The main difference between responsibility and cost centres is that budgetary and spending authority are not delegated to staff at the cost centre level. A cost centre, for example, might be a small field location with limited need for financial flexibility.

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D. OBJECT-OF-EXPENDITURE CLASSIFICATION

In an object-of-expenditure structure, expenditures are classified according to the nature of resources — people, goods, services, capital assets, etc. — which are required for the operation of the program. At the lowest level of budgetary responsibility the manager must identify his financial requirements in terms of the employees, goods, services and capital assets that he requires to carry out his responsibilities. Object-of-expenditure information is less useful in meeting the needs of supervisory levels of departmental management. However, it is of value for budget review at the total government level because it provides data on the effects of government expenditures on the national economy. The requirements of economic analysis on a national basis are satisfied through identification of detailed economic objects which, in conjunction with information from other sectors of the economy, make possible economic analysis of the effects of government spending.

Departmental objects of expenditure, sometimes referred to as resource codes, must be capable of aggregation to the reporting and standard objects designated by Treasury Board, and to the economic objects required for governmental statistical purposes.

The highest level of aggregation, that by standard objects of expenditure and revenue, is identified in Treasury Board Management Improvement Policy MI-8-66, as amended in July and October, 1969. Its requirements are described in Appendix IV-2. Standard objects are required to provide a minimum level of standardization in the reporting of resource requirements in the Estimates and the Public Accounts.

Greater detail on objects of expenditure is provided by reporting objects which, as the name implies, is a level required for reporting for management purposes. It groups together a large number of departmental objects for this purpose. Reporting objects have been identified in T.B. Policy MI-8-66 for purposes of reporting to Treasury Board. Different reporting objects may be required for departmental management purposes, although the departmental system must be capable of reporting to Treasury Board under the headings specified by Treasury Board.

Treasury Board also specifies mandatory economic object codes as a sub-division of the standard object and reporting object codes. These may be used by departments to identify their departmental objects.

Departments are free to designate any departmental objects within the constraint of being able to identify expenditures by the standard, reporting and economic object codes required for inter-departmental consolidation or comparison.

Departmental objects are the level to which all expenditures authorized by a responsibility centre manager will be coded and it therefore is the basic building block of the object-of-expenditure structure.

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E. REVENUE CLASSIFICATION

Revenues obtained by government fall into five principal categories for accounting purposes:

Tax revenue

Non-tax revenue, other than that identified in the three following categories

Receipts credited to votes

Receipts credited to revolving funds, working capital advances and special accounts with respending authority

Receipts credited to asset and liability accounts without respending authority.

Tax revenue is of a specialized nature subject to collection primarily by the Department of National Revenue and is not considered further here.

Because revenues and expenditures fall into discrete systems of classification, the object-of-expenditure classification system is also used to classify revenues. As items are common to many departments, standard object codes have been introduced as follows:

Standard Object 13 — Receipts and Revenue Credited to Votes

Standard Object 14 — Non-Tax Revenue (Receipts Credited to Revenue).

Reporting and economic objects are also prescribed by Treasury Board. The procedure for identification of departmental objects in these cases is the same as for the other Standard Objects of Expenditure and the same constraints apply. Whatever departmental objects are used by departments they must be capable of producing the detail required for the monthly fiscal reporting of revenues published in the Canada Gazette.

Receipts available for respending, such as receipts to revolving funds and working capital advances, as well as receipts to asset and liability accounts, should be reported in such form as determined by Treasury Board for economic analysis and other purposes. The classification system used for internal reporting purposes is not subject to any constraints but in most cases information by various types of revenue will be required.

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F. ASSET AND LIABILITY CLASSIFICATION

Section 55 of the Financial Administration Act directs that the Public Accounts of Canada shall include "a statement . . . of such of the assets and liabilities of Canada as in the opinion of the Minister (of Finance) are required to show the financial position of Canada as at the termination of the fiscal year", and under Section 54 of that Act the Receiver General is required to ensure that the accounts which are necessary for this purpose are maintained.

The government's system is primarily designed to classify assets by their degree of liquidity or realizability, and liabilities by their likelihood of requiring cash to liquidate them. The headings used are described in detail in the Public Accounts.

Accounts receivable, inventories of materials and prepaid expenses are not accounted for in the Statement of Assets and Liabilities and fixed assets are carried on the Statement at a nominal value of \$1.00. Thus, the classification of assets and liabilities normally found in the private sector has little relevance in government.

Although such assets and certain liabilities are excluded from the Statement of Assets and Liabilities, provision must be made for including them in departmental classifications of accounts. In Chapter VIII, the need for accounting controls over inventories of materials and equipment is explained. In Chapter X, a similar need to enter accounts receivable in departmental records is emphasized. Where assets and liabilities are accounted for in a department, but not in the government's central accounting system, contra accounts can be used in the departmental system to eliminate such assets and liabilities so that agreement is maintained with balances in the central accounts.

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EXAMPLES OF ACTIVITY CLASSIFICATION STRUCTURES

1. Introduction

The following are illustrations of three of the more common forms that an activity structure may take. In all three, activity elements are aggregated to sub-activities and activities in a manner which best reflects the contribution each makes towards achievement of the objectives of the program.

2. An Application to Processing Type Operations

2.1 Exhibit A on page 4.12 illustrates the activity structure of a department having activity elements which are ongoing operations that take place in a similar manner in a number of organizational components of the department and where the volume of output and nature of operations makes project costing inappropriate.

2.2 The form of classification permits detailed costing of processes to provide a basis for comparison between district offices and for identifying areas of improvement in any individual office. The component tasks involved in one process — e.g. manual handling, typing, key-punching, mailing — can also be identified in others for purposes of comparison and aggregation.

3. An Application to Project Type Operations

3.1 Exhibit B on page 4.13 illustrates the activity structure of a department having activity elements which are a number of unique projects, some of which may be continuing in nature and others which may be one-time operations.

3.2 The system provides for the costing of each project usually on the basis of resource inputs because there are no standard processes for which costs can usefully be determined.

4. An Application to a Combined Project/Process Type Operation

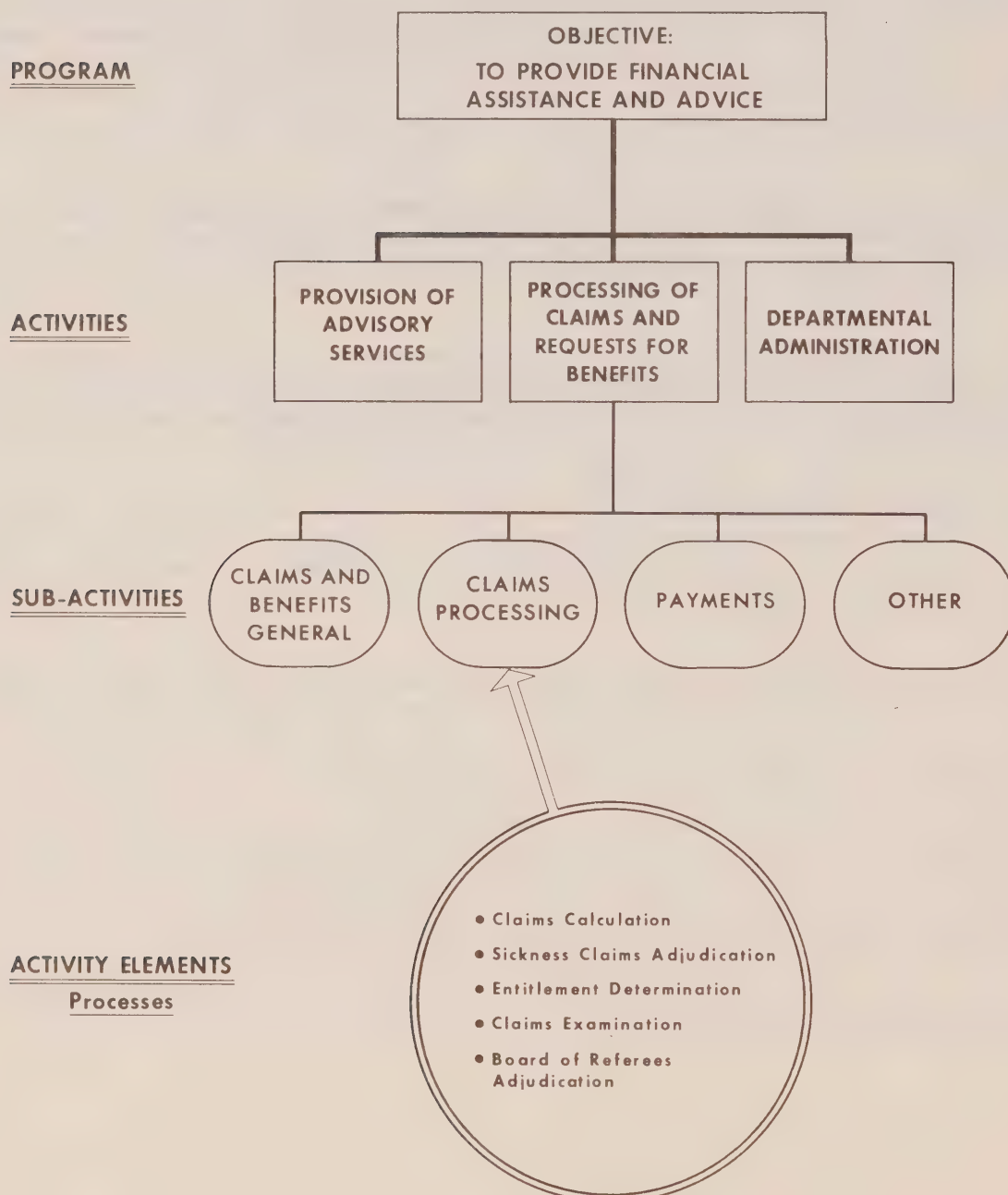
4.1 For certain departmental programs, costing by both process and project may be feasible. Provided that the number of processes in which a department is involved is limited, it may be possible to identify the costs of processes as standard components of each project. For example, there are a number of standard tasks in statistical projects, such as planning, collecting data, analyzing data, etc., and costs can be accumulated by these standard operations for each project.

4.2 This permits costs to be analyzed by processes, although aggregated by projects. Exhibit C on page 4.14 illustrates this type of program.

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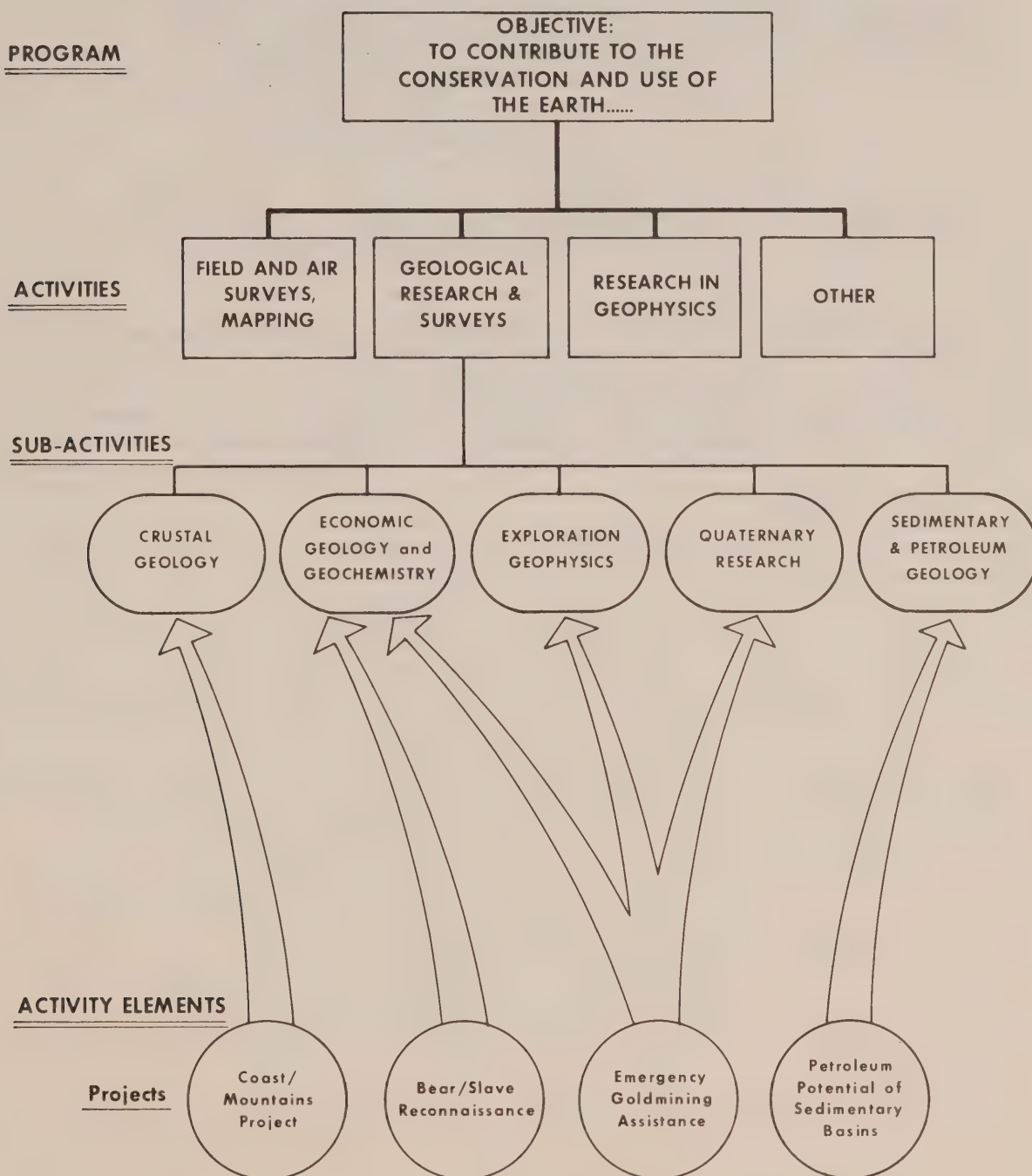
EXHIBIT A
ACTIVITY STRUCTURE: PROCESSING TYPE OPERATIONS



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EXHIBIT B
ACTIVITY STRUCTURE: PROJECT TYPE OPERATIONS

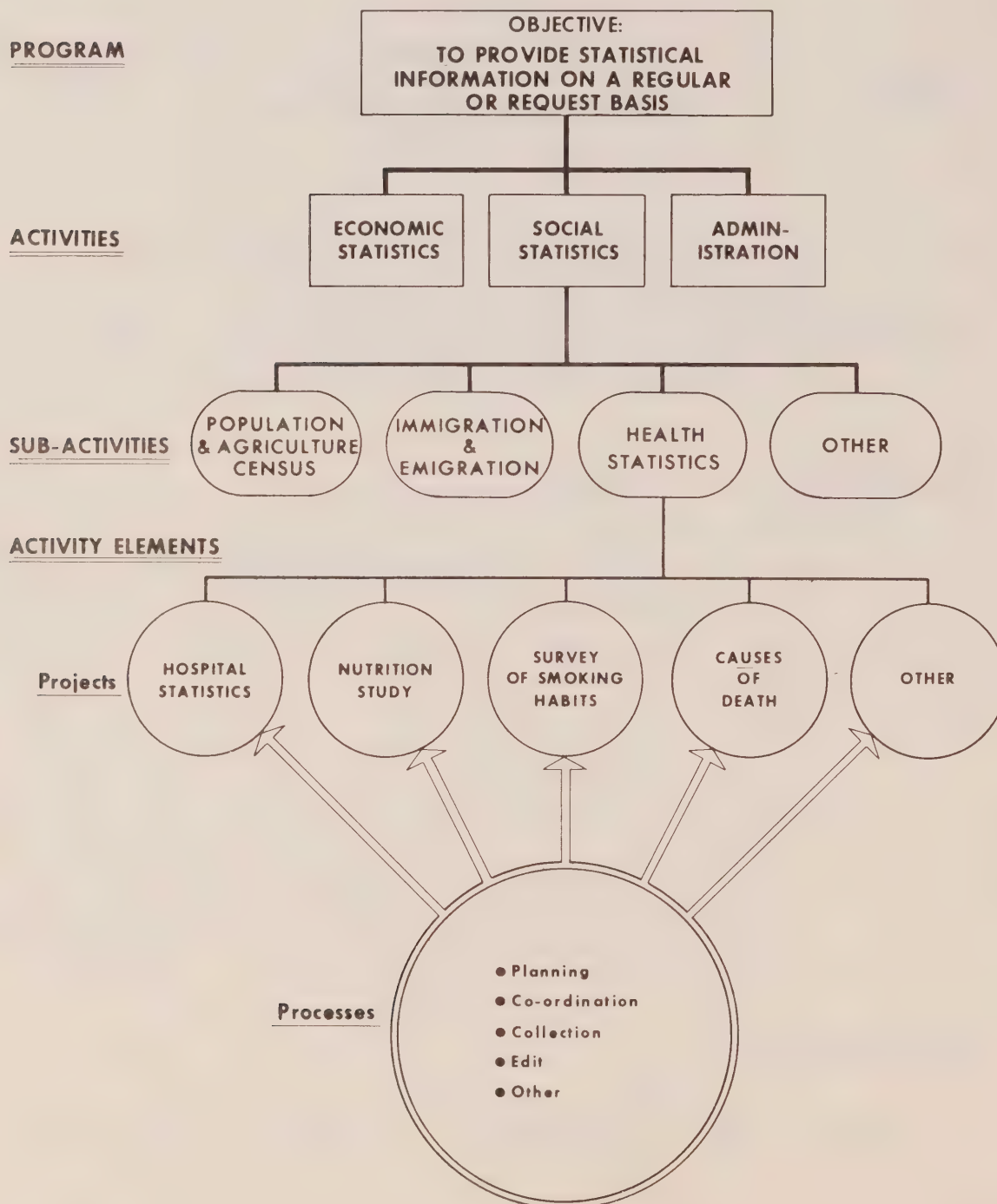


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EXHIBIT C

ACTIVITY STRUCTURE: COMBINING PROJECT AND PROCESS OPERATIONS



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EXPENDITURE CODING SYSTEM

1. Introduction

This appendix describes the system of expenditure coding as promulgated in Management Improvement Policy MI-8-66 dated August 4, 1966 (T.B. 658400) and amended by Treasury Board in July and October, 1969. No changes of any substance are contained in this summary.

The term "line object" used in this Appendix is synonymous with the term "departmental object" found in the remainder of the Guide.

2. Objective

- 2.1 The objective is to create standard sub-classifications and codes for the financial information required for effective executive and departmental management action as well as for economic analysis.
- 2.2 The expenditure coding system imposes upon all departments and certain agencies of government a uniform system of coding expenditures while still permitting flexibility in its adaptation to varying circumstances of departments. The system is designed to meet the needs of all departments and agencies. It is most important from the points of view of economy and efficiency that departments make every effort to exploit the separate coding to meet the special needs of their own costing systems.

3. Definitions

- "Coding" — the identification of an item of expenditure by a series of digits arranged in fields.
- "Field" — one digit or a group of digits allotted for a specific purpose, e.g. vote, line object, activity.
- "Coding Block" — the assembly of all coding fields where the total digits in each block cannot exceed 25.
- "Object of Expenditure" — a classification of expenditure according to its nature, e.g. salaries, wages, material and supplies, construction. Objects are classified as follows:
 - (i) line object — a departmental classification of expenditure at the source. It is either coincident with the economic object or represents a sub-division thereof;
 - (ii) economic object — a classification required for economic analysis. It is identical with the line objects or consists of a group of line objects;
 - (iii) reporting object — a classification required for management control. It consists of a grouping of economic or line objects;
 - (iv) standard object — a grouping of reporting objects for parliamentary and executive control complementing the more effective means of control through program budgeting by activity and responsibility centre;

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- (v) asset object — derivative coding to identify capital formation resulting from a department's use of its own resources (e.g. labour and material) on capital projects, including repairs where the cost is significant.

4. Expenditure Classification

4.1 There are 14 standard objects:

- 01 Personnel
- 02 Transportation and Communications
- 03 Information
- 04 Professional and Special Services
- 05 Rentals
- 06 Purchased Repair and Upkeep
- 07 Utilities, Materials, Supplies and Livestock
- 08 Construction and Acquisition of Land, Buildings and Equipment
- 09 Construction or Acquisition of Machinery and Equipment
- 10 Transfer Payments
- 11 Public Debt Charges
- 12 All Other Expenditures
- 13 Receipts and Revenues Credited to Votes
- 14 Non-tax Revenue.

4.2 The specific content of each standard object is outlined in a Master List of Objects of Expenditure which is divided into Standard objects, Reporting objects (which appear as a sub-classification) and Economic objects. The most recent amendment was issued in October, 1969 and can be obtained by reference to MI-8-66.

4.3 Prior to the end of February each year, departments are required to forward the following information to the Deputy Receiver General:

- the code number of each line object;
- the description of each line object; and
- the corresponding economic object.

It may be impracticable for some departments to break down expenditures to the full extent called for by the economic objects. The use of data by economic objects is in such broad terms as to permit relaxation of the principle of a one to one or many to one relationship between line objects and economic objects in cases where the amounts involved are insignificant for any one expenditure or insignificant in total. In this case, departments will include, for these line objects, an estimated percentage breakdown by economic object. The Deputy Receiver General will thus

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be able to take totals accumulated for departmental purposes by line object, convert them to economic objects, and derive totals for the reporting and standard objects.

4.4 Where receipts and revenues falling under the same classification may be treated as a credit to a Vote under one set of circumstances, and treated as general revenue under another set of circumstances, the last two digits of the economic object is the same under both standard object 13 and standard object 14.

4.5 Each department, agency or division thereof operating under a revolving fund must report revenues in total to the Deputy Receiver General. In some cases, information on sales and purchases, as well as opening and closing inventories, may be required in detail. Reporting criteria will be developed for each individual case.

5. The Coding System

5.1 The coding system is flexible and designed to vary according to the requirements of each department or agency. The methods impose certain minimum conventions that must be adhered to, and the Deputy Receiver General will provide advice on all aspects of the coding system within the conventions listed in this appendix.

5.2 The system is based on three levels of objects of expenditure, i.e. line, reporting and standard. No distinction is made for economic objects as they relate to line objects on a one to one or many to one basis. However, the economic object is a sub-classification of the reporting object as illustrated in the Master List of Objects of Expenditure.

6. Rules

6.1 No field, required for program, vote, etc., in any coding block will contain more than five digits, and the total of all fields will not exceed twenty-five digits.

6.2 Fields for process control (cheque number, batch number, source number, etc.) and for purchase orders, work orders, etc., will be additional to and will follow the expenditure code fields enumerated above. Only the cheque numbers may exceed five digits.

6.3 Departments involved in construction and repairs using their own resources (e.g. labour and material) will include at the end of the coding block a qualifying field designated as an asset object. The actual objects of expenditure used will be entered in the line object field and the type of asset affected will be recorded by entering the last three digits of the corresponding economic object in the asset object field. This data is required to show capital formation in the national accounts.

6.4 The names or purposes of coding fields, the maximum length allowed for each, and the order in which the fields must appear, are listed below. Explanatory comments contain some suggestions for the use of certain fields. Each classification area must be used for only the designated purpose. If a classification is omitted because it is not required, the remaining classifications must appear in the designated order.

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7. Description of Fields

<u>Name or Purpose of Field</u>	<u>Number of Digits</u>	<u>Comments</u>
Program	1 or 2	Required only if a department has more than one program. One digit will be sufficient in most cases, but two digits may be needed where there are several programs and working capital advances.
Vote	1 or 2	Required only if a department has more than one vote. Suggest 1 for operation and maintenance votes, 2 for capital and 3, 4, 5... for grants and subsidies as needed. One digit will usually be sufficient except where there is the necessity to code for several statutory votes or working capital advances.
Responsibility centre	1 or 2 digits per management level	<p>Required for as many responsibility fields as there are levels of management. One and two digit fields could be intermixed as appropriate. The first field is to be used for the highest level of management, the second for the second highest level, and so on. Staff responsibility centres will be coded at their appropriate level. For example, suppose:</p> <p>(a) a department in which branch directors report to a deputy head, division chiefs to branch directors, and section heads to division chiefs; and</p> <p>(b) that the number of branches is less than 10, that the divisions within any branch number more than 10, and that the number of sections within any division is less than 10.</p>

Then, the responsibility centre coding would be:

BRANCH	DIVISION	SECTION
X	XX	X

For coding purposes, the following is suggested:

- the immediate establishment of a deputy head be identified as a branch;
- the immediate establishment of a branch director be identified as a division;
- the immediate establishment of a division chief be identified as a section; and

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Name or Purpose
of Field

Number of
Digits

Comments

— these immediate establishments be coded "1" or "01" as appropriate.

Thus, the responsibility centre codings for the deputy head's office would be:

BRANCH	DIVISION	SECTION
1	00	0

and for the director's office in a branch identified as code 6:

BRANCH	DIVISION	SECTION
6	01	0

There is no theoretical limit to the total number of digits to be used for responsibility centres except the general over-riding limit of 25 digits for all purposes except for whatever relief the use of the collator number may offer (see below).

Activity

1 or 2
digits per
activity
level

Required unless activity coding and responsibility coding coincide. There would be as many fields as required for activity, sub-activity, sub-sub-activity, etc. One and two digit fields could be intermixed as appropriate.

Other financial
control
information

Not more
than 5 digits

To show specific financial control information, the nature of which varies from department to department. No single field of this type is to be more than 5 digits.

The financial control area of the block could also be named "miscellaneous" since it is intended to accommodate requirements of individual departments not capable of convenient and consistent accommodation under the other headings — such as work order code, project code, province, and the like. Again there is no theoretical limit to the number of such miscellaneous coding fields although no *one* field may take up more than 5 digits. Nor is there any theoretical limit to the total number of digits in all such miscellaneous fields, the 25 digit overall limit and the collator number (see below) again being relevant to the issue.

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Name or Purpose of Field	Number of Digits	Comments
Standard object	2	— —
Line object	Not more than 5 digits	Required from all departments, in a one to one or many to one relation to the economic objects. This field must also be used to code revenue objects. It is suggested that a specific consecutive set of digits be set aside for revenue objects not falling under Standard Objects 13 and 14. For instance, where a 4 digit field is used, the block 9,000 to 9,999 could be set aside for such revenue.
Asset object	3	Required where a department uses its own resources (e.g., labour and material) for capital projects, including repairs.

8. Collator Number

This policy statement is compatible with the use now being made by certain departments of a labour saving device known as the "collator number". The high order or left-most digits in the expenditure coding classification at a responsibility centre are usually the same no matter what the type of expenditure. All items tend to fall within the same program and vote. The entries in most of the responsibility centre fields (those at a higher level in the management structure than the responsibility centre to which the expenditure is charged) also tend to be the same. It has been found convenient if, for example, the first ten digits are always the same to substitute a five digit collator number for the ten. Later, in the data processing phase, the full ten digits may be generated as needed.

This device can reduce the amount of clerical work in coding and, since there are fewer digits, there are fewer errors. While the coding block length is still restricted to 25 digits for input purposes the Operations Branch of the Department of Supply and Services, which processes the accounting data for most departments, has found that a limit of 40 digits within the system is practicable. This means that a department could generate up to 20 digits with a 5 digit collator number and specifically code another 20 digits. The two figures above are only examples. In such a case the collator number might generate program, vote, all levels of responsibility, and possibly all levels of activity. It will be understood that whether a collator number is or is not used, the 25 digit limit applies to the amount of coding on any voucher.

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CHAPTER V — BUDGET PREPARATION

GUIDELINES

- *Managers assigned budgetary responsibility should be involved in all aspects of the preparation of their budgets to ensure their commitment to the budgets,*
- *Departments should issue budget guidelines to responsibility centre managers to initiate and direct the accurate and efficient preparation of budgets. Departments should also establish standard worksheets for each program to assist managers in the preparation of responsibility centre budgets, to ensure the recording and retention of basic budgetary data, and to facilitate the aggregation of financial requirements at higher responsibility levels.*
- *Budgets should be reviewed by higher levels of management to determine that they reflect departmental and program plans and constraints, that proposals are realistic and properly justified, and that the method of computing budgeted costs, cash disbursements and other data is reasonable.*
- *Responsibility centre budgets should be prepared wherever possible in three stages:*
 - *calculation of costs by activity elements based on anticipated output and using average unit costs for the program as reflected in the budgetary targets approved in the Program Forecast submissions;*
 - *determination of minimum costs by objects of expenditure for each responsibility centre taking into account the effect of salary commitments and other costs that are fixed or semi-fixed;*
 - *negotiation by each responsibility centre of variances from program averages to arrive at the centre's unit costs for each activity element taking into account its ability to control costs.*
- *Where it is not possible to utilize average unit costs, the costs of each activity element should be computed by objects of expenditure.*
- *Since costs computed for activity elements and objects of expenditure should reflect resources to be consumed, not cash needed to acquire resources, significant anticipated changes in levels of inventories of resources between the beginning and end of the fiscal year will distort costs unless budgeted for separately. Departments should budget for significant anticipated changes in inventory levels as if they were separate activity elements, so that the aggregate costs of all activity elements will more closely approximate cash requirements included in Estimates submissions.*
- *Where there is significant decentralization of budgetary responsibility within a program, the total of the budgets of individual responsibility centres at the lowest level of delegation may exceed the cash authority granted by an appropriation. This practice is justified because, where sub-allotments are created for*

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purposes of decentralized cash control, lapses will occur in some sub-allotments which may not be recognized in time to permit transfer and proper utilization of the surplus funds elsewhere. In these conditions specific provision for such anticipated lapses should be made in the budgets of successive levels of supervisory managers to ensure that the total of responsibility centre budgets does not exceed the amount of departmental appropriations.

A. FINANCIAL PLANNING

A budget in government serves three main purposes. The first is to determine the financial and other resources required to carry out the plans assigned to responsibility centre managers; the second is to obtain Treasury Board and parliamentary approval of departmental programs and resource requirements; the third is to provide the basis for budgetary control.

Over the past few years a planning, programming, budgeting approach to resource allocation has been introduced by Treasury Board. The Planning, Programming, Budgeting Guide (Revised Edition — September 1969) sets out the concepts and aims of the system, while the Program Forecast and Estimates Manual describes in greater detail the annual budgetary process and the form in which the program forecast and estimates submissions are required to be prepared by departments.

The process of preparing the various program forecast submissions is normally carried out centrally and should be a joint responsibility of those responsible for planning in a department and those responsible for financial services. The planning staff should be primarily responsible for assessing and advising on program content and for providing supporting narrative for departmental submissions to Treasury Board. The financial staff should be responsible for co-ordinating, evaluating and assembling supporting financial data and revisions thereto, and for ensuring that the financial data provided are reasonably accurate in disclosing the cost involved. Where the work is actually undertaken will depend largely on the organizational structure of the department and the manner in which responsibility for providing planning and financial services at the program level is assigned within a department.

Program forecast submissions should be prepared centrally because their purpose is to establish the levels of funding which are appropriate for each program, taking into account competing demands for scarce funds. Wherever possible, responsibility centre managers should be freed from the burden of producing detailed budgets at that time since such budgets can be more accurately determined at a later date when program issues have been settled, price changes are known, and the results of the current year's operations are at least partially available. This is not to say that responsibility centre managers should be ignored in preparing program forecast submissions; they will be the source of many of the proposals calling for new or altered programs.

Program forecast submissions should be computed wherever possible by using unit cost data. Unit costs can be computed on the basis of past experience adjusted to reflect known price changes, on the basis of work measurement studies or on a basis combining both of these approaches. If unit costs have been identified, total financial requirements for each activity element can be readily determined once proposed output volumes are forecast. Where unit costs are not available, trend projections will often produce just as accurate forecasts as computations by individual responsibility centres.

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BUDGET PREPARATION

This chapter is primarily concerned with the process of preparing detailed budgets by responsibility centre managers. Detailed budgets are required to verify the cost forecasts used in the program forecast submissions and to provide a basis for allocating funds to the managers who will be responsible for spending the funds. Normally, these detailed budgets provide the basis for Main Estimates submissions although some departments may prefer to prepare their detailed budgets later in the year when the current year's results are more completely known. This latter course of action is feasible only when a department is confident that its requirements can be accurately forecasted for estimates purposes without detailed budgets.

Financial resources are provided in support of approved programs on an annual basis, the fiscal year being April 1st to March 31st. In addition to the program forecast events, the full cycle of financial events relative to the provision of resources also includes the estimates procedures, expenditure control and accounting to Parliament. The sequence of major financial events in a typical department is illustrated on page 5.4 based on the current deadlines for submissions as promulgated by Treasury Board. It also illustrates the timetable of accounting and reporting events required to complete the financial management cycle and indicates the relationships between cycles of successive fiscal years.

Although preparation of program forecast and estimates submissions is a very important part of financial administration work in departments and agencies, this Guide avoids duplicating material contained in other Treasury Board publications. By complementing the Planning, Programming, Budgeting Guide and the Program Forecast and Estimates Manual this Guide seeks to ensure that departmental budget preparation procedures are in consonance with the concepts detailed in those publications.

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B. DEPARTMENTAL ESTIMATES

1. Introduction

A department's total funds for the estimates year are governed by the amounts approved by Treasury Board and Cabinet based on data included in program forecast submissions. The preparation of the Main Estimates submission requires the allocation of these total funds in terms of the activity and object-of-expenditure classification structures of the department. At the same time, in order to meet the future needs for appropriation control after Main Estimates have been approved by Parliament, it is necessary for the funds to be allocated on a responsibility basis. Accordingly, those who are to be responsible for funds should be involved in the preparation of the Main Estimates submission, and/or should prepare budgets subsequent to Treasury Board approval of the Estimates.

Emphasis is placed on involving the lowest levels of budgetary responsibility at the time of preparation of the departmental estimates. The use of unit costs and sophisticated means of estimates compilation may mean that much of the routine work of preparing departmental estimates may be performed centrally before involving the responsibility centre manager. Irrespective of timing, it is essential that the responsibility centre manager be involved to the extent necessary to ensure that the centre's budget is an accurate assessment by the manager of the resources required to carry out the activity elements assigned to him. This is necessary if the manager is to regard the final budget as his budget and one to which he is committed.

The Program Forecast and Estimates Manual prescribes the form of presentation of departmental estimates to Treasury Board and to Parliament. Estimates must be submitted on a cash basis as the appropriation by Parliament is in respect of services coming in course of payment during the year.

Departments now use two alternative approaches in the preparation of budgetary submissions for each responsibility centre:

- the preparation of submissions based on the expected outlay of funds for resources to be acquired in the year, expressed initially in terms of objects of expenditure, and then converted into activity elements
- the preparation of submissions based on the cost of forecast output expressed initially in terms of activity elements and subsequently computed in terms of objects of expenditure.

Both budget preparation procedures must culminate in the estimates submission which goes to Treasury Board on a cash basis. Wherever possible, individual managers should draw up their budgets on the basis of estimating the cost of resources they expect to consume, not acquire, during the year.

A distinction is made in this Guide between budgets prepared on a cash basis and budgets prepared on a cost basis. This distinction is probably not necessary for all departments, particularly those having primarily administrative responsibilities where cash disbursements to acquire resources may often be identical with the cost of resources consumed. Departments with extensive operating responsibilities however should recognize the distinction if line managers and financial officers are to carry out properly their differing budgetary responsibilities. With the emphasis on program budgeting methods, responsibility centre budgets are more properly drawn up on a cost basis so that financial requirements can be related to anticipated operational output in the fiscal year.

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2. Basic Requirements for Preparation of Departmental Estimates

Departmental budget guidelines are required to initiate and direct the accurate and efficient preparation of input to estimates submissions by responsibility centre managers. These guidelines, which should be based on decisions arrived at as a result of program forecast submissions, should include instructions on the levels of activity planned, the methods to be used in preparing budgets, and total dollar and man-year constraints within which budgets are to be submitted, thereby encouraging responsibility centre managers to produce realistic budgets in a consistent form. Where requirements differ for individual programs, the instructions should be tailored to each program.

Departments should establish standard worksheets for each program at the primary level of responsibility to assist the manager in the preparation of his budget, to ensure the recording and retention of basic data and to facilitate the aggregation of financial requirements at higher responsibility levels. At the same time the worksheets would facilitate the entry of data on the forms used for the Main Estimates submission to Treasury Board.

On receipt of the budget worksheets from each subordinate responsibility centre manager, the higher level manager or his staff should review the budgets to ensure:

- that they have been drawn up in accordance with the instructions and constraints in the budget guidelines;
- that plans are realistic, standards have been applied where available and the computation of costs by objects of expenditure are reasonable; and
- that the proposed mix of resources minimizes costs.

Review by financial officers should include analysis of individual responsibility centre submissions in order:

- to compare and verify costs;
- to ensure that budgets have been drawn up within the targets advised for the year or that there are suitable explanations for variations therefrom; and
- to review the justification for the funds requested.

They should then consolidate the individual submissions and forward them to the next level of management where review and consolidation takes place, until the final consolidation results in the preparation of the Main Estimates submissions in the form required by Treasury Board.

The review by management at senior levels of the department is designed to ensure that they can support the requests of their subordinates when the submissions are sent to Treasury Board. This review could be accomplished by using an estimates committee made up of senior managers.

Any changes in budgets imposed at higher levels, including Treasury Board and Parliament, should be notified back to the responsibility centres affected so that their budgets and operational objectives can be adjusted accordingly.

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3. Traditional Method of Preparing Departmental Estimates by Objects of Expenditure

The traditional method of budgeting is to start at the lowest level of responsibility by specifying the numbers and classifications of people and the amounts of equipment, materials, supplies and other resources required to carry out the duties and responsibilities of the manager. The manager budgets for these resources on the basis of purchases anticipated during the year.

The budgets as submitted by the responsibility centre manager are then aggregated upwards through the organizational structure on the basis of objects of expenditure. The process is virtually completed when total requirements for a program have been aggregated and the amounts by objects of expenditure can be entered on the forms required for the Treasury Board submission.

However before the Main Estimates submission can be completed, it is necessary to allocate requirements computed by objects of expenditure among the various activities and sub-activities making up the departmental program. Where each responsibility centre is involved in only one activity, this is a straightforward matter because a department's responsibility structure will coincide with its activity structure. Where this is not the case, a rational means of allocation which can be supported by objectively determined evidence has to be devised.

This traditional system describes procedures which are still common to many departments and agencies and should be followed where a preferred method based on the cost of activity elements is not possible. This preferred method is now described.

4. Preparation of Departmental Estimates by Activity Elements

The main purpose of preparing estimates submissions based on activity elements is to satisfy the needs of departmental management for a budgetary plan in which costs can be evaluated in relation to operational performance. This enables management to identify problem areas where costs in relation to output are excessive so that appropriate corrective action can be initiated, thereby ensuring the achievement of planned objectives, or where necessary, the modification of such objectives.

The relating of costs to achievements or output to be produced during the year introduces a budgetary requirement which is not necessary when the budgetary process concentrates on objects of expenditure which only identify cash required to acquire resources. If the responsibility centre manager directs his attention to operational achievements for which he has been assigned responsibility, his main concern is to identify the costs of manpower and other resources required in the period in which the work is carried out. The cash required to pay for the resources acquired during the period is of secondary concern to him, it being a problem that better falls within the competence of a financial officer

This type of system is now described.

a. Departmental guidelines

In an earlier section of this chapter outlining basic requirements, the importance of guidelines providing dollar and man-year constraints was indicated. Guidelines for cost-based budgets should also cover the following matters:

- clear identification and definition of each activity element to be utilized in building up program requirements;

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- estimated unit costs for each activity element, or aggregated costs for activities or sub-activities where unit costs can be determined only on an aggregated basis;
- methods of computing costs of administrative elements where no relevant unit costs are available; and
- details of components of unit costs in terms of objects of expenditure.

The guidelines should also contain clear instructions on forms to be completed, responsibilities of contributors, procedures and deadlines for review, and such other matters as are necessary.

b. Operational work plans

As a basis for preparing cost-based budgets, a written work plan should be prepared by each responsibility centre. The work plan is a specific statement outlining workload for a responsibility centre for the fiscal year. It outlines all activity elements to be undertaken in that year, including both special and routine activity elements. When completed, it provides the basis for assessing operational accomplishment during the year in relation to the cost of resources provided.

The work plan for any responsibility centre should reflect and be consistent with the objectives set out for the departmental program of which it forms a part. Any permanent terms of reference issued to a responsibility centre should be reviewed before assuming that existing processes and projects have continuing validity and before including such operations in the work plan. The operations reflected in the budgetary submission should be those agreed to when objectives are settled between each manager and his superior. In all cases there must be an adequate flow of information up and down regarding the scope and nature of operations so that the final work plan is agreed to both by responsibility centre managers and supervisory levels of management.

The work plan should indicate the criteria by which the manager's progress will be evaluated. Where these are outputs which can be directly related to man-year requirements and other cost components, the man-year and unit costs to be used in computing budgetary requirements should be indicated and supported.

c. Techniques for preparation

Preparation of cost-based budgets, like cash budgets, begins at the lowest level of responsibility and pyramids upwards through the various levels of management. The process starts with specifying the expected output for each activity element for which the responsibility centre manager is responsible. Unit costs are then applied to the projected output volume and a first estimate of costs is arrived at. However, the costs of few activity elements will vary directly with volume, because there are certain fixed and semi-fixed costs which must be covered regardless of volume, as well as costs which do not necessarily increase when volume increases. Each responsibility centre manager must verify that the unit costs used are appropriate to his unique situation whether they are provided to him in national or regional averages, in averages based on his own past experience or in standards based on work measurement studies. Where he considers that the unit costs provided in budget guidelines are not appropriate for his responsibility centre, he may have to negotiate with his superiors for special unit costs which reflect his special circumstances. Unit costs included in budget guidelines should be based on documented cost studies utilizing data on prior year's costs, variables related to volume, projections of price changes and work measurement or other engineered standards.

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Information on the methods of computing unit costs should be extracted from these cost studies and provided to responsibility centre managers to assist them in assessing the appropriateness of the unit costs to their operations.

If the unit costs used by each responsibility centre manager have been properly computed in terms of objects of expenditure, he should be able to compute the amounts allowed for each resource that he requires. He can then identify the numbers, classification and salaries of people on his staff or to be hired, and relate the resulting requirement to the portion of the costs allocated for salaries. Similar computations can be made of the costs of other resources to which he is committed or which he must obtain. He will then be able to justify variations from average or historical costs based on special cost factors which he can identify including economies or diseconomies of scale.

Where unit costs have not yet been introduced, the responsibility centre manager will be expected to justify his demands for resources on the basis of past experience and whenever possible by comparison with other centres involved in carrying out similar functions.

In summary, the preparation of operating budgets, assuming unit costs are available, is a three stage operation:

- the arithmetical calculation of resource requirements based on anticipated workload for the responsibility centre;
- the determination of personnel and other resource requirements taking into account any costs that are fixed or semi-fixed and not controllable; and
- the negotiation by individual responsibility centres of variances from program averages because of differences between computed costs and minimum requirements taking into account the centre's ability to control its costs.

An illustration of the forms and procedures involved is given in Appendix V-1 to this chapter. Preliminary calculations could be made by computer with print-outs being supplied to responsibility centre managers by financial officers, such calculations flowing directly from unit costs used in the program forecast data submitted to Treasury Board.

d. Aggregation and conversion of cost-based budgets to cash requirements

Where budgets are prepared in advance of the Main Estimates submission, they can, through a process of conversion, form the basis of that submission. Several steps may be necessary before the cost-based budgets of responsibility centre managers can be aggregated and converted to the cash basis and form required for Main Estimates submissions.

The initial aggregation may take place within a responsibility centre. Costs computed by activity element must be converted into objects of expenditure and then aggregated, where a responsibility centre is involved in more than one activity element, to arrive at total costs by objects of expenditure for the responsibility centre. The budgets of responsibility centres must then be aggregated by both activity elements and objects to arrive at a total budget for the next level of management. This process of aggregation continues until the total cost by activity elements and by objects of expenditure is known for each departmental program.

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In many programs, most differences between costs and cash requirements will be eliminated at the year-end because thirty days are allowed after the year-end to settle accounts coming in course of payment during the year. In other programs, costs will have to be adjusted to arrive at cash requirements. This is because of two factors — first the need to take into account changing inventory levels and second the need to anticipate lapses in responsibility centre budgets where financial control is decentralized.

e. Budgeting for inventories

Where there is a continuing need for certain materials it is often managerial practice to replenish or deplete stocks of material during a fiscal year depending on cash availability. It is desirable that this should not distort the operating reports of managers. Wherever fluctuations in inventories distort costs in a significant fashion, it is important to plan and account for changes in inventories. Some means is therefore required to account for the purchase of materials and supplies until they are chargeable as current costs. One means is to utilize a working capital advance to account for the cost of material until it is withdrawn from storage for use, at which time it becomes a proper charge to the operating budget.

Another means makes use of the same principle of holding the costs in suspense until they become proper charges to responsibility centre budgets, but it does so within the activity structure of the department. Inventory purchases are charged to a separate item within the code of accounts of the activity classification and the costs are transferred by journal adjustment to the other activity elements only when inventories are consumed in use. The balance remaining in the inventory account at the end of any accounting period represents the change in inventory holdings over the period and is reflected as an expense of the fiscal period, but in a manner that does not distort unit costs used for purposes of operational evaluation of other activity elements.

Changes in inventory levels should be budgeted for separately where a centre is anticipating a build-up or depletion of inventories. Where a change is anticipated, it should be shown as if it were a separate activity element in preparing budgets. Inventories identified at the activity element level will not be disclosed in aggregated submissions to Treasury Board or Parliament; the technique is primarily for use of departments in achieving better operational control.

f. Anticipation of lapses in responsibility centre budgets

The significant decentralization of budgetary responsibility which has taken place in most departments in recent years has led to a further adjustment in determining cash requirements for many programs. Because the estimates are a ceiling on disbursements, not a target for disbursements, adequate precautions must be taken to prevent excess disbursements. Thus, if a manager is properly concerned to avoid over-expenditures, he may often fall short of his ceiling because circumstances beyond his control affect his ability to hit his target dead-on. Unless such shortfalls are recognized in time to permit their utilization elsewhere, actual cash requirements will be less than the total of cash requirements estimated by each responsibility centre.

The experience of some departments with lapsing funds has led to a number of devices to cope with the problem. Some permit the total of budgets of individual responsibility centres to exceed the total of the estimates. Since Section 25(1) of the Financial Administration Act limits the amount that may be committed to the amounts provided in appropriation acts, officers exercising authority to give commitment certificates must ensure that managers cease making commitments when the level of commitments and disbursements exhausts all free balances in appropriations.

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Where there is significant decentralization of budgetary responsibility within a program, the budgets of responsibility centres at the lowest levels of delegation may exceed the amount of the estimates as long as provision for anticipated lapses is made in the consolidated budgets of successive levels of supervisory managers. This provision is to ensure that the total of responsibility centre budgets at all levels does not exceed the amount of departmental appropriations. This clearly places responsibility on supervisory managers, rather than on financial officers to see that anticipated lapses are realized. The discounting should be based on factors proven by previous experience, with expenditures and commitments being controlled to ensure that unforeseen events do not alter previous year's experiences.

The problem of lapsing funds may be compounded when departments establish contingency funds by restricting the spending authority of responsibility centres to amounts less than the budgets they submit. Where contingencies do not emerge and the amounts revert to the budgets of the responsibility centre managers at the last moment, it may be too late to utilize the funds. Contingency funds should be separately justified, and they should be allowed to lapse if they are not required.

The lapsing of appropriated funds often may be justified where a change of plans has resulted in a reduced requirement for resources overall or where a contingency does not materialize. The budget flexibility given to the deputy head should be used as far as possible to reallocate funds on a planned basis, but any unseemly or wasteful rush to spend available funds at year-end should be avoided.

5. Estimates of Grants and Contributions

Grants and contributions made by a department or agency contribute to the activities and objectives of a program as much as do the operating expenditures of the department or agency.

For practical purposes grants may be defined as payments authorized by Parliament as outright subsidies without any requirement for the provision of proof of utilization through an audit. Contributions, on the other hand, may be defined as payments made subject to the condition that an audit will be made to satisfy the government that the disbursements being reimbursed, or the government's payments in a shared cost project, are in accordance with agreements.

In Circular No. 1971-18 dated March 1, 1971, Treasury Board has issued instructions on detailing grants and contributions in departmental estimates and has explained certain restrictions placed on the use of these funds. These requirements of this directive must be taken into account when preparing and aggregating responsibility centre budgets.

Proposals for expenditure on grants and contributions totalling more than \$5 million within any program during a fiscal year will constitute a separate vote.

6. Estimates of Capital Requirements

The preparation of estimates for capital requirements for inclusion in a department's Main Estimates submission follows a procedure different from that required for administration, operation and maintenance budgets or for grants and contributions budgets. This is because the requirements are examined in greater depth at the planning stage.

The departmental capital budget is a continuously updated record of approved and proposed capital projects whose cost is \$250,000 or more. The preparation of capital budgets will be preceded

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by the proper planning processes, and capital projects will be selected for inclusion on the basis of the cost effectiveness of their contribution to the objectives of the program concerned, within the financial and other constraints imposed.

The very nature of capital procurement requires that the budget be prepared on a cash basis. At the time of preparation of the Main Estimates submission the approved capital program for the estimates year will be obtained from the most recent update of the capital budget and will be listed separately from administration, operation and maintenance expenditures in accordance with the instructions given in the Program Forecast and Estimates Manual. The items included are, in effect, the items approved in the program forecast submissions updated to accommodate the most recent engineering estimates and any more recently approved high priority projects.

Before projects are included in the estimates submission, proposals should be reviewed to ensure:

- that there is a continuing need for all capital projects involving replacement of existing facilities in the light of current program objectives and alternative methods of providing such services which have been considered;
- that the alternative of renting the facility from the private sector has been covered as part of a make or buy analysis;
- that there has been proper consideration of the economic life of the assets and that a program for replacing assets has been established covering a reasonable number of years; and
- that preliminary estimates of the cost of capital proposals are based on sufficient study to ensure their reliability.

The total funds available are normally governed by the amounts approved by Treasury Board following consideration of program forecast submissions.

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ILLUSTRATIVE FORMS FOR PREPARATION OF RESPONSIBILITY
CENTRE BUDGETS BASED ON ACTIVITY ELEMENTS

1. Introduction

- 1.1 The following examples illustrate the types of worksheets which might be used in the preparation of responsibility centre budgets based on activity elements. They are not designed for use in every situation; they are intended to illustrate concepts to be considered when designing departmental forms.
- 1.2 Different forms are required depending on whether costs are calculated using a man-hour standard for each unit of work, or a standard based on total costs for each unit of work.

2. Process-type Activity Elements

2.1 Man-year requirements:

- 2.1.1 The worksheet illustrated in Exhibit A on page 5.16 provides initially for the calculation of total production hours required for the forecast number of work units using a man-hour standard for each unit of work, to which are added allowances for various categories of non-productive hours.
- 2.1.2 A separate calculation of established man-hours available is made on the worksheet illustrated in Exhibit B on page 5.17. This is a general worksheet which provides for the listing of continuing staff by classification and salary cost and is completed whenever amounts are estimated under Standard Object 01 — Personnel. It details the total requirements in terms of salary costs and man-years for established staff for the estimates year.
- 2.1.3 The difference between available staff as assessed on Exhibit B and staff requirements calculated on Exhibit A is then computed, together with casual staff or staff reallocations required, before converting the budget from man-hours into salary requirements at the established rates.
- 2.1.4 The responsibility centre budget is completed by justifying, on a cost basis, resources required under standard objects other than Standard Object 01 — Personnel. No illustration of this worksheet is given because its format will depend on the nature of the justification required.

2.2 Work unit resource requirements:

- 2.2.1 Using a previously determined unit cost the total cost for a given workload is calculated on the worksheet illustrated in Exhibit C on page 5.18. The form also provides for the breakdown of the total cost by objects of expenditure in the proportions that they were included in the unit cost.
- 2.2.2 The salary requirement under Standard Object 01 is verified with the calculation of established staff costs (using Exhibit B).

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3. Project-type Activity Elements

3.1 Summary of project costs by reporting objects:

- 3.1.1 Where each project is identifiable with only one responsibility centre, the easiest method is to budget by reporting objects. No illustration of this worksheet is given because it will vary depending upon the nature of the project.
- 3.1.2 Exhibit D on page 5.19 illustrates a schedule for use by a responsibility centre in summarizing the resource requirements of all the projects for which it is responsible. The totals of the columns show the total resources required by the responsibility centre.
- 3.1.3 A separate calculation of established staff costs should be made on the worksheet illustrated in Exhibit B to relate the total of staff resources required to those presently available or to be requested.
- 3.1.4 In planning his work schedule for the year the responsibility centre manager will need to prepare a breakdown of project costs by months. The design of a worksheet for this purpose could be similar to Exhibit D, the vertical columns being used for the months of the year instead of the reporting objects.

3.2 Individual project cost analysis:

- 3.2.1 The three-page form illustrated in Exhibit E on page 5.20 is intended for use in the planning of a project in a department where the majority of projects involve the participation of two or more responsibility centres and require the application of certain processes common to all.
- 3.2.2 Exhibit E provides for the assembly and analysis of costs:
 - by processes;
 - by organizational units involved;
 - by months of expenditure;
 thus providing the input to a matrix analysis of total project costs.
- 3.2.3 In completing the form the project manager, who would normally be the responsibility centre manager sponsoring the project, first outlines the project, identifies the participation required by other responsibility centres and draws up a provisional timetable of events. All participating organizations are then asked to agree to the timing and to furnish estimates of their man-year and dollar costs by process and by month. Costing is facilitated by the use of standards wherever available.
- 3.2.4 On receipt of this information the project manager enters on page 2 of Exhibit E the total cost and man-year requirement by process for each organization and on page 3 the cost and man-year requirement by month for each organization. When completed, page 2 is totalled horizontally and vertically, the horizontal totals providing the cost and man-year requirement by responsibility centre for entry in Part B of page 1, and the vertical totals providing the cost and man-year requirement by process for entry in Part A of page 1. Totals from page 3 providing monthly costs and man-year requirements are entered in Part C of page 1.

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- 3.2.5 Each responsibility centre should compile its own Summary of Project Costs — Exhibit D — to aggregate the resources required for all the portions of approved projects assigned to it, as input to the operational budget. It is at this stage that the breakdown by standard objects of expenditure is made. A separate calculation of established staff costs should be made on worksheet Exhibit B to relate staff requirements to staff proposals.

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EXHIBIT A

MAN-YEAR REQUIREMENTS WORKSHEET

		MONTHLY WORKLOADS												TOTALS
		APR	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC	JAN	FEB	MAR	
1	WORK UNITS FORECAST													
2	X STANDARD TIME													
3	= TOTAL PRODUCTION HOURS													
4	STAFF TRAINING													
5	ABSENCES (EXCL. VACATIONS)													
6	ENFORCED WAIT													
7	VACATIONS													
8	TOTAL MANHOURS REQUIRED													
9	MAN HOURS AVAILABLE - FULL TIME STAFF													
10	DIFFERENCE (8-9)													
11	MAN HOURS PROVIDED - CASUAL STAFF													
12	MAN HOURS PROVIDED - REALLOCATED STAFF													
13	REGULAR SALARIES REQUIRED													
14	CASUAL SALARIES REQUIRED													
15	SURPLUS SALARIES													
16	TOTAL SALARIES REQUIRED													

RESPONSIBILITY CENTRE: _____ YEAR: _____
 ACTIVITY ELEMENT: _____ DATE PREPARED: _____

AVERAGE SALARY RATES PER HOUR:
 CONTINUING FULL TIME STAFF: _____
 CASUAL STAFF: _____

EXHIBIT B

CALCULATION OF STAFF COSTS FORM

EXHIBIT D

SUMMARY OF PROJECT COSTS BY REPORTING OBJECTS

PROJECT NO.		SHORT TITLE		MAN YEARS		REPORTING OBJECTS				TOTAL	
(BREAKDOWN ACCORDING TO DEPARTMENTAL REQUIREMENT, WITH USE OF EXTENSION SHEETS AS REQUIRED.)											
TOTALS											

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EXHIBIT E

INDIVIDUAL PROJECT COST ANALYSIS FORMS

PROJECT NO. _____ ANALYSIS OF RESOURCE EXPENDITURES BY MONTH PAGE 3

RESP CODE	APR	MAY	JUNE	JULY	AUG.	SEPT	OCT.	NOV	DEC.	JAN.	FEB.	MAR.	TOTAL
	M.Y.	S	M.Y.	S	M.Y.	S	M.Y.	S	M.Y.	S	M.Y.	S	M.Y.

PROJECT NO. _____ ANALYSIS OF RESOURCES BY ORGANIZATION AND PROCESS PAGE 2

NAME OF UNIT	RESP CODE	PLANNING	CO-ORDINATION	COLLECTION	ETC.	FOR PART B SUMMARY BY ORGANIZATION
		M.Y.	S	M.Y.	S	M.Y.
		M.Y.	S	M.Y.	S	M.Y.

PROJECT MANAGER _____ YEAR _____

PROJECT NO. _____ PROJECT TITLE _____

FOR PART C SUMMARY BY MONTHS	SUMMARY BY PROCESSES		PART A SUMMARY BY ORGANIZATION UNITS		PART B SUMMARY BY MONTHS		PART C	
	PROCESS	M.Y.	ORG CODE	UNIT	MONTH	M.Y.		
	PLANNING				APRIL			
	CO-ORDINATION				MAY			
	COLLECTION				JUNE			
	EDIT				JULY			
	ETC.				AUG			
					SEPT			
					OCT			
					NOV			
					DEC.			
					JAN.			
					FEB.			
					MAR.			
	TOTAL				TOTAL			

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DIRECTIVES

- *Control accounts shall be maintained, on behalf of the deputy head, by financial officers or by other officers with payment authority for each appropriation and for each allotment prescribed by Treasury Board, whether departments are operating under full or interim supply appropriations or special Governor General's warrants, so that expenditures in relation to these limits can be determined at any time.*
- *Where payment authority is delegated to officers in decentralized locations, allotments shall be divided into sub-allotments for each such officer, and control accounts shall be maintained for each sub-allotment so that officers requisitioning payments are able to control requisitions in relation to the undischarged commitments and free balances in their sub-allotments.*
- *To comply with the statutory requirement to keep records of commitments and to certify the availability of funds before entering into commitments, departments shall:*
 - *for administration, operation and maintenance expenditures, retain for each responsibility centre copies of all documents recording undischarged commitments and report the total of all such items for inclusion in periodic budgetary control reports; and*
 - *for capital, and grants and contributions expenditures and for multi-year expenditures, maintain a continuing record of individual commitments by fiscal year.*

GUIDELINES

- *Because annual appropriations are for services coming in course of payment during the fiscal year, departments should ensure that payments are requisitioned and processed promptly so that all accounts are paid in the fiscal year in which goods or services are supplied and in which funds are provided.*
- *Cash forecasts which recognize the impact of operational and seasonal factors on cash flow should be prepared periodically in each department; a simple extrapolation of the current or prior year's disbursements will seldom provide a sufficiently accurate cash forecast.*
- *Each responsibility centre manager should control the utilization of the resources in his budget through a system whereby:*
 - *costs by activity elements and reporting objects are budgeted by period in relation to planned output;*
 - *actual costs and output are reported by period; and*
 - *variances between budgeted and actual costs in relation to output are analysed with a view to corrective action.*

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BUDGETARY CONTROL

A. CONTROL OF APPROPRIATIONS AND ALLOTMENTS

Appropriation acts are the means by which Parliament grants expenditure authority to the Crown for departments and agencies. This authority is specified in terms of maximum permissible cash expenditures for separate expenditure categories known as votes or appropriations. To further refine control over cash expenditures, Treasury Board has authority to divide appropriations into narrower expenditure categories known as allotments.

1. Requirements for Control of Appropriations and Allotments

Parliament grants two types of authority for expenditures. One is by annual appropriation of a fixed amount of money, the authority for which expires at the end of the relevant fiscal year; the second is by continuing statutory authority based on legislation which may or may not provide an annual ceiling and the authority for which extends into future years until the legislation is repealed or changed.

a. Annual appropriations

Several appropriation acts are normally passed each fiscal year to grant authority for the annual appropriations. An interim supply bill is passed shortly before the commencement of the fiscal year to provide sufficient funds for the early part of the year. By early summer, appropriation acts approving in full the amounts submitted in Main Estimates are usually passed. If required, supplementary estimates are authorized in the fall and the final supplementaries for the year are authorized just before the end of the fiscal year. Each appropriation act repeats the wording of the votes in the estimates and when passed gives legislative authority for expenditures for the purposes and within the limits specified by each vote.

The requirement for appropriation control begins as soon as the authority for expenditures is released to departments. An appropriation granted by Parliament does not constitute direct authorization for departments to make expenditures; funds are granted to the Crown for allocation to departments by order-in-council.

Section 20 of the Financial Administration Act prescribes that all estimates submitted to Parliament shall be for services coming in course of payment during the fiscal year. Section 21 identifies the requirement for cash control to ensure that payments do not exceed appropriation ceilings.

- 21 — “Where an appropriation is made for any purpose in any Act of Parliament for granting to Her Majesty any sum of money to defray expenses of the public service of Canada for a fiscal year, no payment shall be made pursuant to that appropriation out of the Consolidated Revenue Fund unless a warrant, prepared on the order of the Governor in Council, has been signed by the Governor General authorizing expenditures to be charged against the appropriation, but no payments in excess of the amount of expenditures so authorized shall be made.”

Section 26, sub-section (3) of the Financial Administration Act reinforces the requirement of Section 21 that cash payments not exceed the limits authorized in appropriations, and in addition, introduces a requirement for a means of control to ensure that the balances remaining in appropriations are always adequate to honour all outstanding commitments.

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26(3) — “No requisition shall be made pursuant to subsection (1) for a payment that

- (a) would not be a lawful charge against the appropriation;
- (b) would result in an expenditure in excess of the appropriation; or
- (c) would reduce the balance available in the appropriation so that it would not be sufficient to meet the commitments charged against it.”

Section 30 of the Act gives departments time to make cash payments to discharge commitments properly applicable to the old year as follows:

30 — “The balance of an appropriation granted for a fiscal year that remains unexpended at the end of the fiscal year shall lapse, except that during the thirty days immediately following the end of the fiscal year a payment may be made under the appropriation for the purpose of discharging a debt payable for work performed, goods received or services rendered prior to the end of the fiscal year or payable under any other contractual arrangement prior to the end of that year, and such payment may be charged in the accounts for the fiscal year.”

While the wording of Section 30 is permissive, not obligatory, departments should ensure that payments are made promptly and charged to the proper fiscal year. Departments should have available systems to ensure that payments are made whenever the work has been performed, whenever goods have been received or services rendered, or whenever contractual obligations require payment prior to the end of the fiscal year.

b. Interim supply and Governor General's special warrants

Parliamentary approval of all departmental estimates cannot normally be provided before the commencement of the fiscal year. Funds are provided to carry on day-to-day government operations through an interim supply appropriation act which in recent years has normally covered operations for three months. The amount is intended to cover all requirements under each appropriation, based on need, but usually converted into twelfths of the total Main Estimates for each vote, until full supply is granted. Departments must not spend more money than is granted through interim supply appropriations.

If Parliament is not in session and appropriations have not been approved, the government can request that temporary authority to make expenditures be granted to departments to make payments urgently required for the public good through Governor General's special warrants in accordance with Section 23 of the Financial Administration Act. Funds are not appropriated on a twelfths basis, but provide the total amount of the urgent requirement. When full supply has not been voted and Parliament is not in session, Section 23 deems these special warrants to be part of a department's annual appropriations, not in addition to them. This does not apply when full supply has been granted but additional amounts are required and Parliament is not in session. In this case, amounts in special warrants are equivalent to the granting of Supplementary Estimates. In both cases the requirements for cash and commitment control over appropriations specified in Sections 21 and 26(3) of the Act are applicable. It should be noted that whereas appropriations authorize the spending of certain receipts, special warrants cannot provide such authority nor can they be used to transfer funds from one vote to another.

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Specific instructions are normally issued to departments by Treasury Board if it is necessary to finance government operations through Governor General's special warrants.

c. Allotments

Section 24 of the Financial Administration Act specifies that appropriations be divided into allotments and sub-sections 24(3) and 24(4) identify the need to establish and control allotments arising from both the Main and Supplementary Estimates.

- 24(1) — "At the commencement of each fiscal year or at such other times as the Treasury Board may direct, the deputy head or other person charged with the administration of a service for which there is an appropriation by Parliament or an item included in estimates then before the House of Commons shall, unless otherwise directed by the Board, prepare a division of such appropriation or item into allotments in the form detailed in the estimates submitted to Parliament for such appropriation or item, or in such form as the Board may prescribe.
- (2) — A division required to be prepared pursuant to sub section (1) shall be submitted to the Treasury Board by the deputy head or other person charged with the administration of the service to which it relates.
- (3) — Where a division required to be submitted to the Treasury Board pursuant to sub section (2) is approved by the Board, the allotments shall not be varied or amended without the approval of that Board.
- (4) — The deputy head or other person charged with the administration of a service for which a division is required to be prepared pursuant to sub section (1) shall ensure by an adequate system of internal control and audit that the allotments provided in such division are not exceeded."

When full supply has been voted, the exercise of control over allotments automatically achieves control over the appropriation since the allotments total the appropriation. By contrast, during periods of financing under interim supply or Governor General's special warrants there is no statutory requirement to limit expenditures to the corresponding portion of individual allotments as approved by Treasury Board although such control is desirable.

Treasury Board may direct that departments set up separate allotments for specific purposes. One example is the designation of funds provided for salary revisions as a "reserved allotment". Treasury Board may also direct that certain funds be frozen, in which case no expenditures can be made from the allotment until authorized by the Board. This authority is usually granted as a result of a special submission to the Treasury Board by the department concerned.

2. Cash Control Procedures

The requirements for cash control over appropriations and allotments have been identified above. In this section cash accounting and forecasting procedures to achieve control over allotments are described.

a. Cash control records

To control cash expenditures in relation to allotments, control records must be maintained for each allotment. Normally, this involves keeping manual records in each office where payment

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authority is exercised. In these records the opening balance of each allotment is recorded, the amounts applicable to each allotment from each batch of cheque requisitions passed for payment or journal entries are posted, and the balances are reduced so that at all times the amounts of cash authority remaining can be determined. Postings to these records should be on a day-to-day basis towards the year-end when the possibility of over-spending appropriations becomes more likely.

Because most departments operate on a decentralized basis, each allotment is usually further sub-divided by the department to permit the disbursement of funds outside departmental headquarters. Each responsibility centre will normally be serviced by officers having payment authority who will be accountable for sub-allotments out of each approved allotment. Over-expenditures for purposes provided for in one sub-allotment may not be offset with under-expenditures in another sub-allotment unless they are sub-allotments of the same allotment. To maintain control, each office having payment authority must maintain the same type of control records as at headquarters so that disbursements by the department as a whole will not exceed the authorized totals.

In departments where payment authority is extensively decentralized in this way, the financial reporting system should provide reports showing the free balances of sub-allotments for distribution to each office having payment authority, with aggregate statements being prepared for the central financial officers to ensure that in total the department is within the allotment limits prescribed by Treasury Board. Manual records kept in individual offices for day-to-day control between receipt of periodic statements should be reconciled to these statements.

b. Cash forecasting

Cash forecasting is essential for all departments, even those that have a sophisticated budgetary control system like that described in the last section of this chapter, to ensure that:

- cash disbursements remain within the limits of each appropriation and allotment;
- available cash authority is fully utilized; and
- additional cash authority is obtained where the existing amount is inadequate.

Cash forecasting is also necessary to provide reliable forecasts to assist those who are responsible for central cash management.

The Main Estimates are normally prepared several months in advance of the fiscal year. Many departments wait for Treasury Board approval before forecasting their cash disbursements month by month. The first forecast is usually made before the start of the year for the purposes of the central agencies. The original forecast should be periodically up-dated in the balance of the year to reflect subsequent experience and changing circumstances.

The need to re-forecast annual appropriation cash requirements increases in importance as the year progresses because unused cash authority lapses at the year-end, and expenses that remain unpaid have to be met out of the subsequent year's appropriations. In most cases the next year's estimates have already been finalized before these circumstances are known. If a department fails to recognize situations where available cash authority is insufficient and neither asks for supplementary estimates nor takes action to reduce costs, it may have to carry over costs which it is too late to include in the following year's estimates.

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Departments are responsible for designing and carrying out whatever procedures are required to permit accurate forecasting of periodic cash requirements. Illustrative procedures are contained in Appendix VI-1.

3. Commitment Control Procedures

Although emphasis was placed on cash control procedures in the previous section, departments are also required to maintain a record of undischarged commitments to prevent commitments being entered into which cannot be discharged out of funds provided for the year.

Commitment accounting involves the recording of obligations to make some future payments at the time they are foreseen, not at the time services are rendered and billings are received. Such obligations may represent contractual liabilities of a department as is the case when purchase orders or contracts for goods or services are issued, or they may represent conditional liabilities as is the case when an arrangement is made which may require the spending of funds if conditions specified in the arrangement are met. An example of the conditional type of commitment is a pre-production agreement by a department to sponsor presentations of a promotional film with such sponsorship being contingent on departmental approval of the completed film. Funds sufficient to honour this commitment must be reserved until such time as a final decision on sponsorship of the film has been made. For contractual commitments the amounts of future payments will usually be specified in the contract and can be entered directly in the commitment records. In other cases, it will be necessary to estimate the value of future payments for entry in the commitment records. Departments should not establish blanket commitments based on amounts included in the estimates since the primary purpose of commitment accounting is to maintain an accurate record of free balances in appropriations and allotments after allowing for all items expected to come in course of payment during the fiscal year.

The requirements of the Financial Administration Act with respect to commitments are as follows:

- 25(1) — “No contract or other arrangement providing for the payment of money by Her Majesty shall be entered into or have any force or effect unless the deputy head or other person charged with the administration of a service for which there is an appropriation by Parliament or an item included in estimates then before the House of Commons to which such payment will be charged certifies that there is a sufficient unencumbered balance available out of such appropriation or item to discharge any commitments under such contract or other arrangement that would, under the provisions thereof, come in course of payment during the fiscal year in which the contract or other arrangement was entered into.
- (2) — The deputy head or other person charged with the administration of a service for which there is an appropriation by Parliament or an item included in estimates then before the House of Commons shall establish and maintain or cause to be established and maintained on his behalf a record of commitments chargeable to each such appropriation or item in such form as the Treasury Board may prescribe.”

Two alternative methods of accounting for commitments are available to departments to satisfy this statutory requirement.

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a. Integrated commitment accounting

The traditional method of accounting for commitments is through integration with the principal accounting records of a department. By recording commitments through the regular accounting system, totals of commitments are made known both to officers having spending authority and able to enter into commitments against an allotment and to officers having payment authority and required to certify that the unexpended balance of the appropriation after making a payment will be sufficient to honour all outstanding commitments.

This system requires entries to be made when the commitment is first known, with action being taken to delete the relevant part of the commitment when the disbursement takes place. Positive action also has to be taken to review outstanding commitments and to cancel or amend those that are not likely to result in expenditures in the amounts originally anticipated. This approach to recording commitments, in comparison to the alternative described below, involves additional accounting effort.

The disadvantage of this system is that commitment information is normally only available to the officers exercising financial authorities on a monthly basis. Since monthly statements do not reflect any commitments incurred subsequent to the cut-off date for the statements, managers do not know either the commitment or the expenditure situation from the date of cut-off until they receive a statement for the subsequent month. Thus, even where commitment recording is an integral part of the accounting system, memorandum systems are often established to provide more up-to-date information between monthly statements.

b. Memorandum commitment accounting

Where departments have sub-divided their appropriations so that the budgetary responsibility of each officer in charge of a responsibility centre is clearly designated and there is no sharing of responsibility, a memorandum system of recording commitments will usually be adequate to meet a department's needs. Under these circumstances the responsibility centre keeps an open file of all undischarged commitments. If a memorandum record is also kept of all vouchers processed for payment since the date of cut-off of the latest financial statement on hand, the responsibility centre will know both its expenditure and commitment position on an up-to-date basis.

To meet the needs of officers exercising payment authority, the total of undischarged commitments should be input into the regular accounting system at the cut-off date for each monthly statement, the entry being automatically reversed in the succeeding month. This information is required so that the officer may know the amounts of undischarged commitments and free balances when asked to requisition payments. This achieves the same reporting advantage as the integrated system, without the detailed accounting effort that is required in the integrated system. Towards the end of a fiscal year, however, officers exercising payment authority may periodically require details of commitments made since the date of the cut-off of the latest monthly statement on hand, since additional commitments will reduce free balances. This information can be provided by direct communication on a daily or weekly basis as required under the circumstances.

Normally, large capital projects are established as separate allotments. Smaller capital expenditures and grants and contributions, not detailed in the Estimates, are often assigned to responsibility centres located at departmental headquarters. A permanent record of commitments as opposed to an open file record is required in these circumstances since these commitments may remain outstanding over a long period of time.

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A permanent record of commitments applicable to future years is also required where Parliament has imposed through the wording of appropriations a statutory limit on outstanding commitments that are permissible at any point in time.

Commitment records must also be maintained for future year expenditures even where no statutory ceiling exists because these contracts are entered into on the assumption that funds will be provided in future years and future years' requirements therefore must be known. Section 33 of the Financial Administration Act states the following:

- 33 — "It is a term of every contract providing for the payment of any money by Her Majesty that payment thereunder is subject to there being an appropriation for the particular service for the fiscal year in which any commitment thereunder would come in course of payment."

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B. CONTROL OF RESPONSIBILITY CENTRE BUDGETS

Allocation of financial authority by Parliament is on an annual cash basis which requires the appropriation and allotment system of budgetary control over cash and commitments described in the preceding part of this chapter in all departments and agencies. However, it must be recognized that budgetary control on a cash basis will be fully effective only if those who initiate action which will result in expenditures have adequate means of controlling their operations in relation to the plans on which cash requirements were originally forecast.

Systems of budgetary control on a responsibility centre basis are necessary because departments are so large and complex that they cannot be centrally managed without a substantial degree of financial authority being delegated. Delegation of authority does not mean abdication of responsibility; central management should retain control over those to whom they have delegated authority by utilizing systems of financial reporting and budgetary control on a responsibility centre basis.

The concept of managerial control through a budgetary system is that if each manager has an agreed time-phased plan, if he accounts for his actions in relation to plans on a periodic basis, and if variances are analysed, then the organization in total will live within its budget, attain its goals, or take corrective action to alter its plans or its operations while both options are open to management.

Such a system requires:

- a budgetary plan prepared on a basis that shows costs accurately for each period of time;
- periodic and consistent reporting of costs on the same accurate basis for each period of time utilized in the original plan; and
- meaningful analysis of variances between planned and actual performance.

The mechanics of producing a periodic budget on a cost basis were covered in the previous chapter. Chapter VII illustrates reports disclosing comparative and variance information. The remaining part of this chapter illustrates why cost-based systems of budgetary control are often necessary and how they can be used.

1. Essential Ingredients for Budgetary Control on a Responsibility Centre Basis

a. Managerial commitment to budgeted plans

A responsibility centre budget should be a priced, time-phased plan designed to control subsequent events. Where budgets are drawn up without time-phased plans and available resources are simply apportioned on an equal basis over each accounting period, it is highly unlikely that a useful yardstick will be available for purposes of controlling subsequent events.

For a budget to be effective as a control instrument, both the responsibility centre manager and those to whom he reports must be committed to it. The responsibility centre manager should participate in its preparation and senior management should effectively review the budget so that the approved plan can be regarded as a contract between levels of management to attain certain goals with allotted resources.

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b. Reporting of performance in relation to approved plans

Settling upon an approved plan is the first step in the process of budgetary control on a responsibility basis; the second is regular reporting of progress in relation to the approved plan. Reporting should be on a basis that is consistent with the manner in which the plan was produced.

An operating manager's budget should be a priced plan, not a cash flow document. Managers should be held accountable for actions that give rise to expenditures. Most managers, however, have limited control over the timing of billings by suppliers of goods and services, can do little to speed up the application of the various checks and balances that are imposed to ensure the propriety of each disbursement, and have limited influence on the timing of cheque issue in the centralized payment system of the Government of Canada. Thus, the accounting system will not produce data in a form that reflects matters within the control of the responsibility centre manager unless managers are required to budget on a cost basis.

The need for financial information identifying costs, rather than disbursements, becomes most critical when it is desirable to relate costs to units of operational effort or production. There must be a matching over time of operational and financial data if unit cost data for measuring cost effectiveness or efficiency are to be meaningful. This becomes particularly important if the unit cost data are utilized as part of a budgetary control system that attempts to measure and compare the performance of responsibility centres to each other or to a predetermined standard.

c. Prompt reporting of performance

A budgetary control system on a responsibility centre basis will be worthwhile only if it leads managers to take corrective action to remedy unsatisfactory performance or plans. In a large complex organization with many levels of authority and geographical decentralization it is often difficult to identify at what level responsibility lies for deciding among alternative courses of corrective action. Unsatisfactory performance should simultaneously be made known to all levels of responsibility to facilitate timely decisions on corrective action.

d. Control on an exception basis

Exact adherence to plan is desirable but rarely attainable. Many deviations are minor and will cancel out from period to period or will offset each other. Since a budgetary control system is designed to initiate corrective action, it should identify only those areas where exceptions are critical enough to warrant managerial action.

2. Variance Reporting System

For a budgetary control system on a responsibility basis to be effective, each manager should be provided with financial reports comparing his own and his subordinates' operations to date with approved plans. If operations are going as planned, no further action may be required. If there are deviations from plan, their significance should be analysed and explained, and alternative courses of corrective action identified.

Variance reports are a responsibility centre manager's own reports. Financial staff can help managers in their preparation, but they should not attempt to assume full responsibility for reaching conclusions on the significance of variances or for initiating proposals for corrective action.

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Variance reports should be considered as a positive means of informing higher level management of changing situations which, if ignored, may have serious effect on the attainment of responsibility centre and program objectives.

Appendix VI-2 provides an illustration of procedures and forms for a variance reporting system.

There are three main factors that will cause variances:

- changes in volume of output;
- changes in quantity of resource input; and
- changes in prices of resource input.

a. Changes in volume of output

A comparison of the actual volume of output in relation to planned output provides managers with probably their most significant variance information. In order to determine and report the effect of changes in the volume of output, units of measurement must be defined, identified and reported on an accurate and consistent basis for each reporting period. If planned output is not realized and financial resource consumption does not vary on a comparable basis, managers are alerted to the fact their plans for meeting public needs may not be achieved within their budgets. Thus, they must reconsider their plans or take alternative courses of action.

b. Changes in quantity of resource input

Changes in quantities of resources input to operations which occur in response to a change in the volume of output will not cause concern in themselves if resource requirements for each unit of output do not change. However, where such changes result from changes in efficiency with more or less resources being required for a given volume of output, it is critical that management know the causes. It may be because of changes in the quality of resources, both human and material, changes in productive methods, or changes in supervision. This type of variance, if unfavourable, should lead to corrective action being initiated. It is easier to determine the nature of the action to be taken if standards have been developed based on careful study to ensure that the targets are attainable.

c. Changes in prices of resource input

Changes in the total dollar cost of resource input, not resulting from changes in the volume of output or changes in the volume of resource input, will be due to changes in the unit costs of resource inputs.

Management may or may not be able to take corrective action in this area. Many price changes are beyond the control of an individual responsibility centre manager. Nevertheless, in drawing up his original plans, he may have adopted a least-cost option that no longer applies and it may now be possible to achieve the program goals with a different resource mix. Where the price change is more widespread, it may be possible for those managers who are responsible for resource acquisition to take alternative actions to lower the cost of resources. Often the cost increases should result in a change in plans to reduce the volume or quality of output, to increase efficiency or to relax the dollar constraints imposed by the original budget.

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d. Multi-variables

In most situations, no single factor will account for the variances and there will be a combination of influences that interact. However, through the process of analysis the various components can be determined and exposed so that appropriate corrective action can be taken on each component.

3. Budgetary Adjustments

The nature of any department's operations is such that very rarely will operations proceed exactly according to plan. Therefore the budgetary control systems should be flexible enough to allow managers latitude to change plans.

Normally a manager should be responsible for the total resources allotted to him rather than being held accountable for each component. There are some limitations however that should be observed in this regard. Since most departments operate under a man-year ceiling it is necessary to define a man-year ceiling for each manager as well. Managers are also subject to constraints on the use of their casual man-years to employ full-time staff. Departments may wish to control separately major construction projects and a manager will not receive authority to use the funds from one project for another purpose, this flexibility being reserved for senior management. Under other circumstances the manager may have restricted authority to manage the funds in his budget and must employ the funds assigned to him only to meet specific responsibilities.

In those cases where the manager has authority to utilize his total resource allocation, formal adjustments to budgeted amounts should not be made. If the manager wishes to over-spend or under-spend individual activity elements or individual reporting objects he should be able to do so, but it should be recognized as a deviation from plan which should be reviewed by his supervisor.

When a department structures its budget system so that authority to change is restricted to higher levels, some formal budget adjustment procedures should be established and followed, or the budgetary amounts being used for control will have little significance. Nevertheless, it is usually desirable not to lose sight of the original plan and both original and adjusted budgets should be reported.

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ILLUSTRATIVE PROCEDURES FOR CASH FORECASTING

1. Introduction

This appendix indicates the factors to be taken into account and suggests methods of forecasting departmental cash requirements on a periodic basis.

2. Factors to be Taken into Account when Forecasting

- historical trends and ratios of disbursements and non-cash data;
- the flow of expenditure documents through the organization and the possibility of acceleration or delay in processing at any critical point;
- fluctuations in asset holdings which may lead to managerial action to build up or deplete inventories or fixed assets;
- seasonal and economic changes that have a predictable influence on operations; and
- pending or anticipated changes in operation plans.

3. Methods of Forecasting

Three principal methods of forecasting may be considered, depending on the data available.

3.1 Analysis of cost variances:

The original forecast, based on the cost of output forecast for each activity element, is allocated to fiscal periods by adjusting for the normal time lags in making disbursements. It is updated periodically based on an analysis of variances reported by each responsibility centre to reflect the effect of price or efficiency changes, and variances in volume of output, as well as corresponding time lags in making disbursements.

3.2 Analysis of trends:

The original forecast is based on the previous year's trend of cash expenditure by months projected in relation to the budget provided for the current year, after taking into account any anticipated variations. It is updated periodically based on trends experienced in the current year.

3.3 Analysis of reporting objects:

The original forecast is based on a detailed analysis of requirements under each standard or reporting object (e.g. salaries, travel, grants, etc.) for each month of the year. It is updated on the basis of actual experience to date plus known and anticipated requirements to the end of the forecast period.

4. Illustrative Example

The following is an outline of typical procedures that can be carried out using cash and commitment information that should be available in all departments:

- identify each allotment and sub-allotment on a form that will facilitate forecasting, such as that illustrated on Exhibit A on page 6.15;

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- record appropriation and allotment limits, including supplementary estimates and transfers between allotments;
- record accumulated disbursements and undischarged commitments from control records and compute free balances;
- project expenditures by categories for the balance of the year, distinguishing between items such as travelling, where commitment information is not normally available or helpful, and expenditures in categories where commitments can be examined;
- check projections with responsible officers to ensure that there are no special circumstances which may alter previous experience or otherwise affect the forecast;
- where major capital expenditures or grants are involved, request an independent forecast from the responsible officers and compare;
- record the forecast for the period and compare with free balances;
- document the basis used in forecasting to facilitate the updating of forecasts in the balance of the year, and for guidance when making a forecast at the same point in time in the subsequent year; and
- communicate the results of the forecast on a form such as illustrated in Exhibit B on page 6.16.

EXHIBIT A

CASH FORECAST WORKSHEET

FINANCIAL RESPONSIBILITY: _____

AS AT: _____

		ORIGINAL BUDGET	SUPPS.	ALLOTMENT TRANSFERS	REVISED BUDGET	CASH DISBURSEMENTS TO DATE	TOTAL UNLIQUIDATED COMMITMENTS	FREE BALANCE	CASH FORECAST FOR YEAR		
SUB ALLOTMENT	# 1										
	# 2										
T.B. ALLOTMENT "A"											
SUB ALLOTMENT	# 3										
	# 4										
	# 5										
T.B. ALLOTMENT "B"											
T.B. ALLOTMENT "C"											
T.B. ALLOTMENT "D"											
APPROPRIATION TOTAL											

PREPARED BY: _____

DATE: _____


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EXHIBIT B

CASH FORECASTING AND VARIANCE REPORTING FORM

FINANCIAL RESPONSIBILITY: _____			_____ AS AT: _____			
YEAR TO DATE			YEAR-END OUTLOOK			
ACTUAL	UNLIQUIDATED COMMITMENTS	FREE BALANCE	\$ 000's	ESTIMATES	FORECAST	DIFFERENCE
			PERSONNEL COSTS:			
			FULL-TIME			
			CASUALS & OTHERS			
			EXTRA DUTY			
			RESERVE ALLOTMENTS			
			TOTAL PERSONNEL COSTS			
			GOODS AND SERVICES			
			TOTAL GROSS APPROPRIATION			
			RECEIPTS CREDITED TO VOTE			
			TOTAL NET APPROPRIATION			
			CAPITAL COSTS			
			PROJECT #1			
			PROJECT #2			
			OTHERS			
			TOTAL APPROPRIATION			
			GRANTS AND CONTRIBUTIONS:			
			ITEM #1			
			ITEM #2			
			TOTAL APPROPRIATION			
			MAN-YEARS AND STRENGTH:			
			FULL-TIME MAN-YEARS			
			CASUALS & OTHERS			
			TOTAL MAN-YEARS			
			STRENGTH FULL-TIME			
PREPARED BY: _____			DATE: _____			

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ILLUSTRATION OF APPLICATION OF VARIANCE REPORTING SYSTEM

1. System Outline

Budgetary control systems on a responsibility centre basis should provide for:

- budgets prepared on a periodic basis;
- periodic reporting of actual performance in a manner consistent with the basis on which budgets are prepared; and
- prompt analysis and reporting of variances in terms of output volumes, input quantities and input prices.

2. Significant Features

Such systems can take a variety of forms, but all must embody the following features:

- a system of highlighting exceptional circumstances requiring managerial attention;
- a system for analysing to determine the factors giving rise to the exceptional circumstances; and
- a means of communicating the results of the analysis to the person who must make the decision.

3. Highlighting of Exceptional Circumstances

The reporting system should be designed to highlight variances so that the attention of a busy manager will be directed only to those matters with which he should concern himself. This may take a number of forms:

- project identification by colour code where, for example, red indicates a serious situation, yellow a questionable situation, and green a situation in which everything is proceeding as planned;
- percentages may be used either in place of or in addition to dollar variances; and
- the computer can be programmed so that only variances exceeding a minimum percentage, related either to plan to date or to annual plan, or variances resulting from failure to achieve predetermined standards, are printed out.

4. Analysis of Variances

4.1 Analysis should normally be in terms of the following three causes of variances:

- changes in volume of output;
- changes in quantity of resource input; and
- changes in price of resource input.

A form illustrating this type of analysis is attached as Exhibit A on page 6.19.

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- 4.2 It should be noted that meaningful analysis is virtually impossible without a properly priced plan prepared on a periodic basis. Unless quantities of inputs and outputs are identified and priced, analysis becomes very subjective and tends to explain what has happened, not what caused it to happen contrary to plan.
- 4.3 Analysis in whatever form should be forward-looking and should clearly project the year-end outlook based on variances to date, as well as those anticipated in the future.

5. Variance Analysis Reports

Systems for reporting on variance analysis can be designed in a variety of ways:

- reporting may result from a specific request or may be required automatically on the basis of prescribed acceptable limits of variances between results and plans;
- reporting may be based on objects of expenditure or on activity elements;
- reports originating at lower level responsibility centres may roll up through the established responsibility levels or may short-circuit this often time-consuming process by being forwarded directly, possibly telexed, to a central analysis group for production of a summary of significant problems for distribution to all interested managers at the same time; and
- reports should distinguish between those variances which are caused by new or changed conditions not included in the original budget, such as the implementation of unforeseen governmental or departmental policy, and those variances resulting from goals not being achieved according to plan for which responsibility centre managers are more directly accountable.

An example of a variance analysis report is provided in Exhibit B on page 6.20.

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EXHIBIT A VARIANCE ANALYSIS FORM

RESPONSIBILITY CENTRE: _____		AS AT: _____				
ACTIVITY ELEMENT: _____	PERIOD TO DATE		VARIANCE (UNFAVOURABLE)			
	BUDGET	ACTUAL	NET	VOLUME	EFFICIENCY	PRICE
VOLUME OF OUTPUT	1,000	500		50%		
RESOURCE INPUTS PER UNIT OF OUTPUT	2	3			(50%)	
COST PER RESOURCE UNIT	\$5.00	\$6.00				(20%)
TOTAL COST	\$ 10,000	\$ 9,000	\$ 1,000	\$ 5,000	(\$ 2,500)	(\$ 1,500)
UNIT COST OF OUTPUT	\$ 10	\$ 18	(\$ 8)		(\$ 5)	(\$ 3)

NOTE -- On the basis of simple budget analysis the manager saved \$1,000. However, this is not the complete story. The manager's output was 500 units less than budget; his time (or other resource input) per unit of output increased by 50%; and the cost per unit of time increased by 20%. As a result there are three situations that must be investigated to explain why unit costs increased by eight dollars or 80%; volume saving \$5,000, loss of efficiency (\$2,500), and higher prices (\$1,500), for a net variance of \$1,000.

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EXHIBIT B

VARIANCE ANALYSIS REPORT

RESPONSIBILITY CENTRE: _____ AS AT: _____						
	YEAR-TO-DATE VARIANCE UNDER (OVER) BUDGET		APPROVED ANNUAL BUDGET		ANNUAL FORECAST	
	\$00's	UNITS	\$00's	UNITS	\$00's	UNITS
ACTIVITY ELEMENTS						
# 1						
# 2						
TOTALS						
REPORTING OBJECTS						
PERSONNEL COSTS						
ALL OTHER COSTS						
TOTALS						
REASONS FOR VARIANCE						
VARIANCE TO BE EXPLAINED FULLY IN OPERATIONAL TERMS BY COMPLETING THE FOLLOWING SECTION, INDICATING THE CORRECTIVE ACTION NECESSARY					AMOUNT \$ 00's	
PRICE VARIANCE	# 1					
	# 2					
VOLUME VARIANCE	# 1					
	# 2					
EFFICIENCY VARIANCE	# 1					
	# 2					
TOTAL YEAR TO DATE VARIANCE						
CURRENT AND PROJECTED ANNUAL REQUIREMENT						
TOTAL ANNUAL APPROVED BUDGET					MAN-YEARS	\$000's
AMOUNT THAT WILL LAPSE AND IS AVAILABLE FOR RE-ALLOCATION (FOR WHICH ADDITIONAL RESOURCES ARE REQUIRED)						
					MAN YEARS	\$000's
NOW						
ESTIMATED FOR BALANCE OF YEAR						
TOTAL CHANGE						
REVISED ANNUAL REQUIREMENT						
MANAGER'S SIGNATURE: _____ DATE: _____						

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CHAPTER VII — DEPARTMENTAL FINANCIAL REPORTING

GUIDELINES

- *Financial management reports, which periodically relate actual and planned costs to outputs, should be prepared for responsibility centre managers, for their supervisors and for staff advisers responsible for activities to provide them with the information required to control costs in relation to output.*
- *Separate financial reports, which provide information on disbursements, undischarged commitments and free balances by appropriation, allotment and sub-allotment, should be provided to financial officers and other officers with payment authority to enable them on behalf of the deputy head to control cash flow in relation to limits imposed by annual and other appropriations and by allotments.*

A. FINANCIAL REPORTING PROCESS

Financial reports display in summary form the multitude of transactions that flow through a system of financial administration and may be regarded as its end products. It is through financial reports that financial information is made visible, the accountability of managers is expressed, and certain financial controls are exercised.

The reporting system described in this chapter assumes:

- a three-fold classification of accounts which identifies reporting objects, activity elements and financial responsibility;
- a budgetary system which provides estimates of financial requirements on a periodic basis; and
- a budgetary control system designed both to control appropriations and allotments on a cash basis and to control consumption of financial resources in relation to planned operational performance.

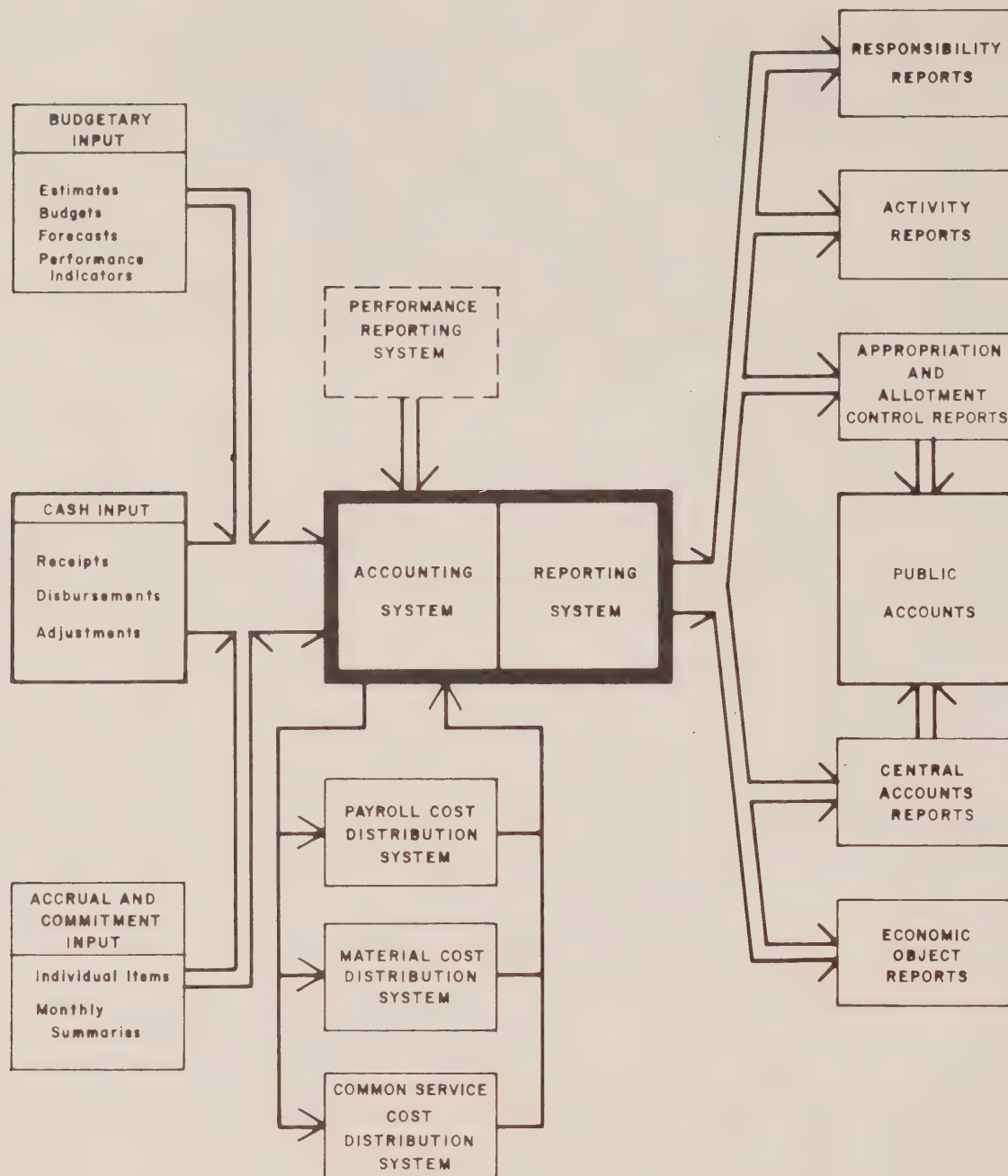
These matters have been discussed in previous chapters.

The component elements of the financial reporting process are shown in diagrammatic form on page 7.2. The process illustrated contains elements, such as systems for operational data and cost allocation, that are not always present in departmental systems. In other cases these elements are present, but they are not considered part of, or integrated with, the principal financial reporting system. This lack of integration is undesirable because the component systems, for whatever purposes originally designed, obtain greater reliability and authority when tied in with the principal system. Communication among managers is more harmonious when data are reported within a consistent framework, thereby avoiding conflicting reports and enabling direct comparison between reports. This is not to say that all systems need to be under the control and operation of a single organizational unit; it should be possible to harmonize the various components through proper systems design and through co-ordination at an appropriate management level.

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FINANCIAL REPORTING PROCESS



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1. Inputs to the Financial Reporting Process

Traditionally, there have been three main types of information for purposes of financial reporting; data on cash receipts and disbursements, data on budgetary plans, and data on undischarged commitments and liabilities. The first type of data is usually derived as a by-product of the cheque issue and cash receipt systems of the Receiver General, but the other two types of data are obtained within departments.

a. Cash transactions

Since the Receiver General is responsible for recording receipts into and disbursements out of the Consolidated Revenue Fund, most data on cash transactions are obtained as a by-product of the cheque issue and cash deposit system of the Department of Supply and Services. Where such data are obtained independently, departments may be involved in duplicatory processing which leads to reconciliation problems if the data reported by the department are to be consistent with that in the central accounts of the government.

The advantages of obtaining data on cash transactions from the Department of Supply and Services are set forth in the next chapter.

b. Budgetary data

Once the final allocation of resources for a fiscal year is agreed to by Treasury Board, budgetary accounts and operational targets, as allocated to and agreed with responsibility centre managers, should be input into the financial reporting system in the form required for reporting. As explained previously, responsibility centres should allocate the physical resources they require and the operational targets that they have been assigned on a monthly basis so that they can be input to the financial reporting system for later comparison with actual results in their financial reports. Where responsibility centres have built up their original operating budgets on a monthly basis, some recomputation of monthly figures will be required to reflect any changes in annual targets because of changes at higher levels of management. If the original budgets were drawn up on an annual basis, however, it will be necessary to divide the total resources allocated into reporting periods based on anticipated costs of resources to be consumed in each reporting period.

In earlier chapters of this Guide, the advantages of computing operating budgets on a cost basis were outlined. Where the cost basis is used, the periodic budgets reflect costs consumed in operations, not cash disbursed. Nevertheless, it is still necessary for financial officers to convert operating budgets to a monthly cash flow basis in order to forecast cash requirements for purposes of appropriation and allotment control and for reporting to those responsible for government-wide cash forecasting.

One other type of budgetary information is provided in many reporting systems. Where operational data are input into the reporting system for purposes of reporting accomplishment in terms of output volumes and unit costs, it is desirable to forecast the accomplishment anticipated in each reporting period.

c. Commitment and accrual data

For purposes of appropriation and allotment control, it is desirable to enter all undischarged commitments in the financial reporting system to provide information on commitments to those

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officers responsible for requisitioning payments under Section 26 of the Financial Administration Act. Such information, however, need not be reported to responsibility centres where memorandum records of outstanding commitments are already available in the centres. Where detailed commitment records are kept centrally and commitment certificates are issued by officers with payment authority, responsibility centre managers should primarily rely on reports comparing actual and planned expenditures to ensure against over-commitment.

Non-cash entries to record unpaid costs will also need to be entered in financial reporting systems for purposes of preparing reports for management or for cost analysis. Such data can be input either by individual transactions, or by period-end entries summarizing unpaid items.

2. Systems for Processing Data for Financial Reporting

The systems used to process data for purposes of financial reporting will vary between departments in terms of their design, number and interrelationships. The financial reporting process illustration on page 7.2 shows the relationship of these systems and how they link up the data input with the reports that are the products of the financial reporting process.

The division between the principal accounting system and the reporting system shown in this illustration is for conceptual purposes only, and in practice, no clear distinction between such systems can be made. An accounting system is a device for classifying and storing data until it is time to report them. Although accounting systems may vary greatly in form and complexity, all accounting involves three main processes: first, preparing source documents to execute, identify and substantiate transactions; second, recording transactions in books or other records of original entry to provide a permanent record and to facilitate summarization; and third, posting transactions, individually or in groupings, to ledgers where transactions of a similar character are accumulated so that summary data become readily available for reporting or for further analysis.

Some accounting systems are relatively simple — for example, when receipts and disbursements can be identified immediately in relation to the various accounts in which they will ultimately be recorded. This is normally feasible when only costs of inputs are determined. Where outputs are to be costed, information initially reported may have to be analysed and redistributed. For example, payroll or materiel costs may have to be accumulated in ledger accounts until data become available from time or materiel distribution systems to provide a basis for accounting entries to redistribute costs. Similarly, where certain activities are centralized and provided on a common service basis — for example computer services or workshops — accounting systems are required to accumulate costs until services to which those costs can be allocated are rendered. Where such systems are an integral part of the reporting process, one can have greater confidence that the true costs of the common services are identified, and that all costs are ultimately allocated. Reports produced from such integrated systems are also more comprehensive and useful.

Where there is provision for reporting of operational data, there must be means of inputting such data in terms of the same accounts as are used for reporting financial data. Normally, operational data will come from a variety of sources. It can be input into the principal accounting system in summary form or the accounting system itself can be used to accumulate individual transactions. The same standards of accuracy, timeliness and authority are required as for financial data and it is desirable that those responsible for the financial reporting system participate in the design of the systems which generate non-financial operational data.

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3. Information Available from the Financial Reporting Process

The ability of a department to report data is governed by the means of classification used for recording, processing and storing individual transactions. As stated earlier, the reporting system described in this chapter assumes that each individual transaction will be classified within the responsibility, activity and object structures. Thus, the information that can be produced is closely related to these principal classifications.

a. Responsibility information

The delegation of spending authority to operational managers should be supported by an appropriate financial reporting system. Such a system must provide the lowest levels of responsibility, where contracts are entered into and accounts are approved for payment, with detail on actual transactions that can be related to their original budgetary requests. In addition, supervisory managers must be able to determine if responsibility centre managers are staying within the aggregate budgetary constraints imposed on them. The information needs of both levels are similar although the level of detail reduces as more information is consolidated for supervisory managers. The presentation for progressively higher levels of supervision must also be simplified to convey to each level of management only that data they can and wish to utilize.

b. Activity information

All responsibility centres require information on activity elements. In addition, special reports are usually required to facilitate comparison of activity costs among responsibility centres and to provide detailed cost data so that the efficiency and effectiveness of projects and processes can be compared. Such data are particularly useful in planning the future by building on past experience.

c. Appropriation and allotment control information

Parliament votes funds on a cash basis with authority normally lapsing at the end of the fiscal year, and therefore it is necessary to manage cash closely in relation to each appropriation granted by Parliament. Treasury Board also restricts to some degree departmental flexibility in using funds by creating allotments within each appropriation. Such individual appropriations and allotments usually encompass an area of government operations involving a number of responsibility centre managers and supporting financial services offices. Information is required by each officer having payment authority so that he can ensure that he stays within the limits of the sub-allotments for which he is responsible.

d. Information for central agencies

To discharge the Receiver General's statutory responsibilities and to satisfy the requirements of certain central agencies for data for purposes of economic analysis, a number of reports are prepared in the central financial reporting system of the Department of Supply and Services. Both these reports and the appropriation and allotment information described above provide data for reporting in the Public Accounts. Because central information requirements are either the responsibility of or of interest to a limited number of departments and agencies, this Guide does not discuss them in detail.

e. Other information

Most financial reports can be prepared using computer facilities, but financial officers should use manual reporting techniques where a computer report may be either confusing to the recipient or excessively costly. Significant totals can be transcribed from computer reports to a standard form to

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display succinctly significant information — for example, office by office comparisons, percentage completion, etc. While the illustrations presented in this chapter are in either tabular or graphic form, the possibility of using narrative financial reports should not be overlooked. Narrative reports will normally be prepared for special purposes. They are suitable for providing information on intangibles, emphasizing subtle deviations, explaining details obscured in summary reports, interpreting variances and indicating necessary corrective actions.

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B. FINANCIAL REPORTING OUTPUT

1. Types of Financial Reports

The organizational structures of departments vary greatly, but the following types of managers are recognized in this chapter for purposes of determining financial reporting requirements:

- Responsibility centre managers — These are the managers who are directly responsible for spending a portion of a department's appropriations.
- Supervisory managers — These are deputy heads and all other departmental managers who supervise one or more responsibility centre managers.
- Staff advisers — These are managers who have functional responsibility for an activity, but not direct or line responsibility. They generally act in a staff role to a supervisory manager and assist him by advising on and evaluating the manner in which funds are spent by his subordinates. Activity co-ordination in this sense may be found at more than one level in an organization.
- Financial officers — These are the managers who generally act in a staff role to a supervisory manager and assist him by advising on the financial implications of managerial plans and policies. Among their other duties, they have primary responsibility for appropriation and allotment control and for requisitioning payments under the authority of Section 26 of the Financial Administration Act.
- Financial support staff — These are staff who are responsible for checking the accuracy of reports and who are available to analyze data on financial reports where any of the above levels of management require further detail than that provided in their reports.

These designations are used in this chapter to facilitate the description of their differing reporting requirements. It should be noted that any single manager may play more than one role. Supervisory managers and staff advisers in many instances may have direct financial responsibility for funds to satisfy their immediate and direct responsibilities and therefore will also be responsibility centre managers. A supervisory manager without supporting staff advisers carries out both roles, as well as being a responsibility centre manager.

The five distinctive roles are identified because each type of manager has a different need for financial information which warrants a different display of information even though it all flows from the same reporting system. Appendix VII-1 illustrates how the financial reports of the five types of recipients relate to each other. In the illustration the reports are shown as emerging separately from a continuous flow of departmental financial information, with each type of manager getting his own responsibility centre report whenever he is designated as a responsibility centre manager.

Properly designed, a reporting system should be able to satisfy the requirements of all report recipients in an integrated fashion.

a. Responsibility centre manager's report

This is the lowest level of reporting or the level where the greatest detail should be reported. A responsibility centre manager should receive information in summary form on the costs of the various activity elements for which he is responsible and on the reporting objects describing the resources he

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requires to carry them out. This is illustrated in Appendix VII-2. Because actual costs are compared to planned expenditures, it should not be necessary to detail the resources devoted to each activity element, or vice versa; these should be made available to the manager by supporting financial staff when he wishes to analyse variances from plan. In addition, no listing of transactions is provided to the manager; such listings are book-keeping records and should remain with financial or other support staff.

Most responsibility centre managers should not normally need to be directly concerned with managing cash appropriations and allotments. Generally, this responsibility can be placed on those financial officers who have been given authority to requisition payments under Section 26 of the Financial Administration Act; the prime concern of responsibility centre managers should be to adhere to their operating budgets, relying on financial officers for cash flow control. They, therefore, do not normally require allotment control reports.

b. Supervisory manager's report

This report, which is illustrated in Appendix VII-3 is a summary of all financial transactions of the responsibility centre managers reporting to a supervisory manager, including his own expenditures. It includes the transactions of both his immediate subordinates and their subordinates.

The report is a three-part summary by activity elements (or aggregations of such elements), by responsibility centres, and by reporting objects. These three types of information are necessary for all levels of supervision although the amount of detail should lessen as the responsibilities of a manager broaden and he is required to devote his attention only to significant items.

The first part of the summary, which shows expenditures by activity elements, indicates whether the operational performance of the supervisory manager and his subordinates is as planned. The second part discloses the manner in which his immediate subordinates are managing their total responsibilities. This will indicate whether corrective action is necessary to stay within budgetary constraints for the supervisor's entire area of responsibility. The final part shows the resources that the manager and his subordinates are using. It should be noted that activity and object information is not shown for each of the subordinates on the theory that the supervisory manager should be concerned with such details only on an exception basis when operations depart from plan.

c. Staff adviser's report

As explained above, a staff adviser is a specialist who is advising a supervisory manager, at any level in the department, on a specified activity or activities. Most departments will have decentralized administrative or supporting functions such as finance, personnel, construction, etc. so that a review of the activity can be obtained only by consolidating information falling within the direct responsibility of several supervising managers. In other cases where all departmental activities within regions are centralized under regional managers, the headquarters adviser, who is responsible for co-ordinating an activity, must receive information that aggregates the financial information for the activity. In both cases the staff adviser needs an activity summary for each of the subordinate centres that reports directly to the supervisory manager whom he advises. The type of report he should receive is illustrated in Appendix VII-4.

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The summary statement is required to provide concise activity information for all responsibility centres engaged in the activity. With these data the adviser can determine if the organization is achieving its activity plans or not. If variances are detected, he can direct his attention to the subordinate level reports which are in the same form as the summary report to facilitate analysis. The subordinate level reports also make it possible to compare costs, to detect trends and to compare individual performance.

d. Financial officer's report

Financial officers have responsibility for maintaining appropriation and allotment control. Accordingly they need reports that show for each of the responsibility centre managers they service the amounts allotted, disbursements to date, undischarged commitments and free balances. The type of report required by financial officers is illustrated in Appendix VII-5. By showing the trend in cash disbursements, it assists financial officers in preparing cash forecasts.

Other reports may be required by financial officers to facilitate rendering advice on the financial implications of managerial plans and performance. Data required for this purpose will normally be available from copies of reports provided to other officers or from the detailed data in the hands of the financial staff.

Senior financial officers will require a separate summary statement for each financial officer under their direction or functional authority. This report should be similar to the report required by other staff advisers and is illustrated in Appendix VII-4.

e. Financial support staff reports

The information received by financial support staff is in a different form and consists primarily of listings designed to show transactions recorded in each account that pertains to the various responsibility centres that they support. In computerized accounting systems these listings are really transcriptions of the detailed accounting records. Their form is not particularly important for purposes of this chapter and therefore is not illustrated.

These listings should be used to check that all entries are proper charges to the respective accounts, and to provide analytical information on request or where required on a routine basis.

f. Special reports

Frequently, line managers have particular management information requirements that are not well served by the traditional types of reports. The data to be reported may be very similar to that contained in other reports, but the management approach is different and a different report style is required. Appendix VII-6 illustrates a report which shows operating results in a graphic form as well as providing in narrative form a single word to identify project status based on data contained in the accounting system:

- red for review and report;
- yellow for review but report only if necessary; and
- green for not necessary to review.

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2. Desirable Attributes for Financial Reports

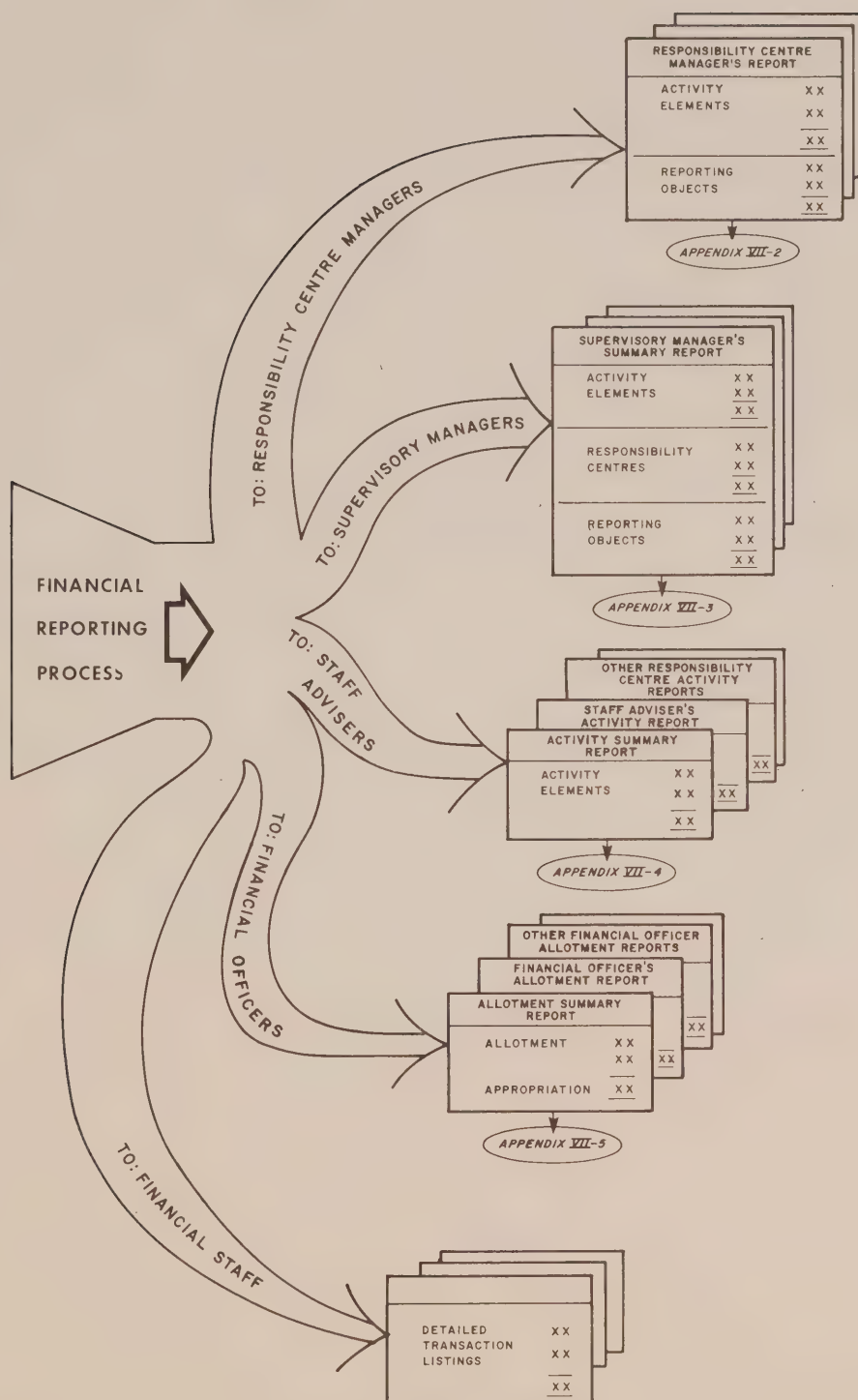
Appendices VII-2 to 6 are designed to illustrate a number of good reporting practices. The illustrations are for guidance only and would require modification to satisfy the specific requirements of most departments. The following is a checklist of desirable attributes for financial reports:

- Accountability — the manager who is accountable and the extent of the responsibility identified in the report should be clearly disclosed by showing the manager's title, area of responsibility and period covered.
- Simplicity — reports should present information concisely, avoiding unnecessary details such as sub-totals or figures which do not add to the reader's understanding and which can be calculated if required. In the appendices only three columns are shown: actual performance to date, variances to date, and annual plan. Current period data could be added, but this is rarely needed in government where concern is more with year-to-date figures because of the annual manner in which financial authority is granted. Headings are used which readily identify the content of columns.
- Consistency — reports should display information in a consistent fashion. Standard presentations are used for all non-financial managers, with the only different presentation being for financial officers.
- Analysis — reports should disclose information in a comparative manner to highlight significant differences. Dollar amounts and operational data are shown and unit costs are computed. Percentages should be displayed wherever they convey information usefully.

In addition, reports should be capable of being produced economically, but in a timely and accurate manner. Timeliness and accuracy standards will vary depending on the purposes of reports. In some cases where timing is of great importance to the report recipients, it may be desirable to lower standards of accuracy to facilitate the speedier production of reports. In such instances care must be taken to ensure that the reports are nevertheless sufficiently accurate for proper decision making and that all users of the reports are made aware of the limitations of the data included in the reports.

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RESPONSIBILITY CENTRE MANAGER'S REPORT

RESPONSIBILITY CENTRE: _____				AS AT: _____					
	ACTUAL TO DATE			VARIANCE TO DATE			ANNUAL PLAN		
	COST \$ 00'S	VOLUME	UNIT COST	COST \$ 00'S	VOLUME	UNIT COST	COST \$ 00'S	VOLUME	UNIT COST
SUB ACTIVITY "A"									
Element 1									
Element 2									
etc.									
SUB TOTAL									
SUB ACTIVITY "B"									
Element 1									
Element 2									
etc.									
SUB TOTAL									
ACTIVITY TOTAL									
PERSONNEL	\$	MAN-YRS.		\$	MAN-YRS.		\$	MAN-YRS.	
Salaries and Wages									
Extra Duty Pay									
etc.									
SUB TOTAL									
GOODS AND SERVICES									
Travel									
Utilities									
etc.									
SUB TOTAL									
REPORTING OBJECTS TOTAL									

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SUPERVISORY MANAGER'S REPORT

RESPONSIBILITY CENTRE: _____		AS AT: _____																			
	<table border="1"> <thead> <tr> <th colspan="3">ACTUAL TO DATE</th> </tr> <tr> <th>COST (\$ 00's)</th> <th>VOLUME</th> <th>UNIT COST</th> </tr> </thead> </table>	ACTUAL TO DATE			COST (\$ 00's)	VOLUME	UNIT COST	<table border="1"> <thead> <tr> <th colspan="3">VARIANCE TO DATE</th> </tr> <tr> <th>COST (\$ 00's)</th> <th>VOLUME</th> <th>UNIT COST</th> </tr> </thead> </table>	VARIANCE TO DATE			COST (\$ 00's)	VOLUME	UNIT COST	<table border="1"> <thead> <tr> <th colspan="3">ANNUAL PLAN</th> </tr> <tr> <th>COST (\$ 00's)</th> <th>VOLUME</th> <th>UNIT COST</th> </tr> </thead> </table>	ANNUAL PLAN			COST (\$ 00's)	VOLUME	UNIT COST
ACTUAL TO DATE																					
COST (\$ 00's)	VOLUME	UNIT COST																			
VARIANCE TO DATE																					
COST (\$ 00's)	VOLUME	UNIT COST																			
ANNUAL PLAN																					
COST (\$ 00's)	VOLUME	UNIT COST																			
SUB ACTIVITY "A" Element 1 Element 2 etc.																					
SUB TOTAL																					
SUB ACTIVITY "B" Element 1 Element 2 etc.																					
SUB TOTAL																					
ACTIVITY TOTAL																					
RESPONSIBILITY CENTRES Centre 1 Centre 2 etc.	(\$ 000's)	\$ 000's %	\$ 000's																		
RESPONSIBILITY TOTAL																					
PERSONNEL Salaries and Wages Extra Duty Pay etc.	\$ MAN-YEARS	\$ MAN-YEARS	\$ MAN-YEARS																		
SUB TOTAL																					
GOODS AND SERVICES Travel Utilities etc.																					
SUB TOTAL		%																			
REPORTING OBJECTS TOTAL																					

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STAFF ADVISER'S ACTIVITY REPORT

	ACTUAL TO-DATE			VARIANCE TO-DATE			ANNUAL PLAN		
	COST (\$000's)	VOLUME	UNIT COST	COST (\$000's)	VOLUME	UNIT COST	COST (\$000's)	VOLUME	UNIT COST
SUB ACTIVITY "X"									
Element 1									
Element 2									
etc.									
SUB TOTAL									
SUB ACTIVITY "Y"									
Element 1									
Element 2									
etc.									
SUB TOTAL									
SUB ACTIVITY "Z"									
Element 1									
Element 2									
etc.									
SUB TOTAL									
TOTAL ACTIVITY									

AS AT: _____

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FINANCIAL OFFICER'S ALLOTMENT REPORT

FINANCIAL OFFICER'S TITLE: _____		AS AT: _____		
	ANNUAL ESTIMATES	EXPENDITURES TO DATE	OUTSTANDING COMMITMENTS	FREE BALANCE
ALLOTMENT 1 Sub-Allotment A Sub-Allotment B etc.				
TOTAL				
ALLOTMENT 2 Sub-Allotment A Sub-Allotment B etc.				
TOTAL				
ALLOTMENT 3 Sub-Allotment A Sub-Allotment B etc.				
TOTAL				
APPROPRIATION TOTAL				

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RESPONSIBILITY CENTRE PROJECT PROGRESS REPORT

RESPONSIBILITY CENTRE:														AS AT: _____	
ANNUAL PLAN	\$ (000)	APR.	MAY	JUN.	JUL.	AUG.	SEP.	OCT.	NOV.	DEC.	JAN.	FEB.	MAR.	\$ (000)	PROJECT NO. & TITLE
79,708	104													104	
	93													93	DESCRIPTION OF PROJECT
	83													83	
	73													73	
	62													62	
	52													52	
	41													41	
	31													31	
	21													21	PROJECT MANAGER
	10													10	
	0													0	
ANNUAL PLAN	M-Y	APR.	MAY	JUN.	JUL.	AUG.	SEP.	OCT.	NOV.	DEC.	JAN.	FEB.	MAR.	M-Y	STATUS SUMMARY
6.0	7.8													7.8	WITHIN PLANNED DOLLARS YES
	7.0													7.0	WITHIN PLANNED MAN-YEARS NO
	6.2													6.2	TARGET - IN DAYS YES
	5.5													5.5	PROGRESS - % COMPLETED NO
	4.7													4.7	STATUS OF THIS PROJECT YELLOW
	3.9													3.9	PROJECT MANAGERS REMARKS:
	3.1													3.1	
	2.3													2.3	
	1.6													1.6	
	0.8													0.8	
	0.0													0.0	
TARGET (DAYS)		APR.	MAY	JUN.	JUL.	AUG.	SEP.	OCT.	NOV.	DEC.	JAN.	FEB.	MAR.		LEGEND
% COMPLETED		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX		PLANNED XXXXX
% OF \$ UTILIZ.		11	19	27	35	42	55	60	75	85	91				UTILIZED *****
															ESTIMATED (E)

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CHAPTER VIII — ACCOUNTING FOR EXPENDITURES

DIRECTIVES

- *All financial and financially related systems of a department shall be integrated with each other and with the central accounting system of the government to avoid duplication of accounting effort and to ensure the completeness and consistency of all data reported.*
- *Departmental accounting systems shall have adequate accounting controls to ensure the completeness, accuracy and authority of all information provided by such systems.*

GUIDELINES

- *Departments should utilize wherever possible the accounting and reporting services of the Department of Supply and Services to obtain detailed accounting information as a by-product of the recording of cash disbursement transactions.*
- *Where a separate service organization is responsible for a departmental accounting system, or some element of such a system, the department being serviced should take whatever steps are necessary to ensure the adequacy of the products of the system.*
- *After payment authority has been exercised, payment requisitions should be forwarded promptly and directly to the appropriate office of the Department of Supply and Services thereby expediting the processing of cash transactions to ensure that all transactions approved by a manager are included in his reports in the period to which they apply.*
- *Departmental accounting systems should be designed to permit the periodic entry and reporting of information on undischarged commitments so that officers exercising financial signing authorities, but not maintaining detailed records of commitments, may know the amounts of undischarged commitments and free balances for each appropriation and allotment on a periodic basis.*
- *Departmental accounting systems should be designed to provide accurate, periodic cost information on the activity elements involved in carrying out departmental programs. Where cash disbursements are not significantly different from costs, cash information will satisfy this requirement for cost information. This requirement is to provide for relating costs to benefits; for comparing efficiency over a period of time or among similar responsibility centres; for determining the amounts to be recovered when services for which a charge is appropriate are provided to the public; and for comparing revenues recovered against the related costs. Accrual information should be entered into accounting systems to the extent it is necessary to facilitate the provision of cost information.*

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• *Accounting controls should be established over inventories of materials and equipment wherever there is need, because of the amounts or nature of the inventories, for independently controlling them, for providing information on changes in inventory levels, or for eliminating the effect of inventory changes from costs reported by the principal accounting system. Accrual information should be entered into accounting systems to the extent necessary to facilitate the maintenance of accounting control over assets.*

A. INTRODUCTION

This chapter is devoted to the practical application of accounting principles in departments and agencies and includes:

- a description of accounting systems in the Government of Canada and the basis on which diverse systems can be integrated;
- practices for accounting for expenditures on a cash, commitment, accrual and cost basis;
- practices for accounting for inventories;
- the accounting controls which are required to ensure the completeness, accuracy, and authority of financial records; and
- practices to be applied in establishing and maintaining a code of accounts.

Chapter X is concerned with accounting for revenues, although references will be made to revenue in this chapter where the same principles apply to both revenues and expenditures.

Responsibility for accounting in the Government of Canada is divided. Some responsibilities are allocated to the Receiver General; other responsibilities are allocated to individual departments and agencies; and Treasury Board has authority to prescribe the manner and form of the accounts of Canada and of departmental accounts.

The deputy head of a department is responsible for having established and maintained on his behalf adequate systems of accounting and internal control over the financial resources and assets allocated or entrusted to his department or agency. For these purposes, an accounting system includes all the clerical, supervisory, manual, mechanical, and electronic means by which financial information is collected, recorded and reported within or for a department. An internal control system includes all those checks, balances, and supervisory controls within and around the accounting system which are designed to ensure that all financial transactions are accurately, completely, and promptly recorded in the accounting system, that there are financial safeguards over the custody and use of assets held by a department, and that the government is protected against improper or illegal financial transactions. Accounting controls are inseparable from accounting systems, and any division which has been made in this Guide for explanatory purposes should not occur in practice.

The adequacy of these systems is a matter of judgement in each situation. As a minimum, a system must be maintained to satisfy the requirements of the Financial Administration Act and all other acts which may be applicable, the policies and regulations of Treasury Board and the requirements of the Receiver General.

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B. INTEGRATION OF ACCOUNTING SYSTEMS

This section describes the central accounting practices of the government, the financial reporting services provided on a service basis by the Department of Supply and Services, and the variety of approaches which can be taken in integrating departmental accounting systems with the central systems.

1. Central Accounting Practices

A descriptive overview of the central accounting practices of the Government of Canada is provided below so that departments will both understand the reasons for the directive that they integrate their accounting systems with those maintained for the government as a whole and appreciate the advantages of such integration.

The Department of Supply and Services maintains a central integrated accounting system to discharge the Receiver General's responsibilities relating to receipts into and expenditures out of the Consolidated Revenue Fund, and to enable it to provide accounting services to departments.

The basic concept of this central system is that accounting data, both aggregate and detailed, are assembled at one central location where information may be identified and extracted according to the diverse needs of individual users in departments and central agencies. Computers are used extensively to assist in assembling and processing the accounting detail, and the central pool of information or "data bank" is held on magnetic files. This single integrated system is supported by several sub-systems which either assemble accounting data from various sources or process information extracted from the data bank.

The significance of the integrated data bank may best be illustrated by comparison with the alternative approach of consolidation accounting. This would require that each department or operating unit maintain a completely independent set of accounting records and that reports on the government as a whole be prepared by consolidating information generated and reported by the individual accounting systems. A few departments have developed accounting systems which are largely independent of the central accounts. These impose special problems and cause some duplication of effort because:

- transactions must be separately input to the central accounts and to the departmental accounts; and
- departmental systems must be reconciled with the central accounts.

a. The cheque issue system

The Department of Supply and Services maintains a network of local Services offices across the country, each having the capacity and authority to issue cheques for the Receiver General. All departments must prepare, authorize and submit cheque requisitions to local Services offices in accordance with the account verification and payment requisition procedures laid down by Treasury Board and discussed in Chapter IX on Financial Control of Expenditures.

The local Services offices are responsible for:

- verifying the authority of cheque requisitions;

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- controlling unused cheques;
- preparing, signing, and issuing cheques;
- recording cheques issued; and
- entering cheque issue information in the central accounting system.

The offices are divided into departmental, regional and area Services offices, and each office is assigned a unique series of cheque numbers.

Departmental Services offices are located in Ottawa in close proximity to the departments which they serve. They can manually issue "rush" cheques, but they generally do not have computer facilities and normal cheque requisitions are forwarded to a central unit for processing through computerized cheque issue and accounting routines. Regional Services offices, located in Vancouver, Edmonton, Winnipeg, Toronto, Montreal, and Halifax, have computer processing facilities. They process cheque requisitions through their own cheque issue and accounting routines and the related information is transferred daily by electronic means to the central data bank in Ottawa. Area Services offices, located in other principal cities across Canada, do not generally have computer facilities. They issue cheques manually or mechanically and the related cheque requisitions are forwarded to regional offices for input of cheque issue and accounting information through the regional computers. Those area and departmental Services offices which have computer facilities prepare cheques electronically in the same manner as regional Services offices.

There are minor deviations to these generalized procedures for payroll cheques, payments in foreign currencies, cheque cancellations and payments by money order.

There are standard procedures for the redemption of all cheques issued by the Department of Supply and Services. Chartered banks present all Receiver General cheques which they have honoured each day to the Bank of Canada and its agencies, and on the same day the Bank reimburses the chartered banks. On the following day, the Receiver General reimburses the Bank of Canada and the paid cheques are delivered to the Department of Supply and Services where all Receiver General bank accounts are reconciled.

b. Non-cheque issue accounting system

Non-cheque issue accounting transactions include revenue transactions as well as transactions recorded on journal vouchers, including accruals, commitments, interdepartmental transfers, budget amendments, and non-dollar data such as performance indicators. The procedures for entering these transactions in the central accounting system are similar to the cheque issue procedures except that these transactions are input to the accounting routines only and not to the cheque issue routines. Each transaction must be properly authorized and submitted to a Services office in accordance with appropriate control procedures for encoding and input to the main accounting system.

c. The pay system

In order to meet its responsibilities for the disbursement of pay, the Department of Supply and Services operates computerized pay systems which are independent of the central accounting system. Outputs from these pay systems are transferred in magnetic form to the data bank of the central accounting system to provide both payroll cheque issue information and a distribution of payroll costs.

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d. The Government of Canada accounting data bank

The data bank is a collection of magnetic files which includes all accounting transactions which are input to the central accounts and which is available for access by the central computers. The data bank is a dynamic structure. Modifications, additions, and deletions are continuously being made to processing routines and file organizations both to improve the system and to provide for changing needs of individual users.

Accounting information is received at the data bank by a variety of means. Regional Services offices transmit data electronically by wire; centralized cheque issue and pay systems provide magnetic tapes; and some special types of information, received directly from departments, may arrive on magnetic tapes, punched cards or even on source documents requiring encoding. Transactions are assembled daily and merged weekly to produce cash statements. The data bank is updated monthly.

Each individual accounting transaction is recorded in the data bank and is identified by a series of code numbers which includes departmental accounting codes on the original source document, code numbers assigned by accounting and local Services offices during the batching process, and any coding imposed by computer routines. The coding structure is standard, but it can be adapted to meet the specific requirements of each department. Through a series of specially designed control files which interpret the coding attached to transactions, a user of the system, whether it is a department or a central agency, may specify what data are to be selected from the data bank and the format, sequence, amount of detail and totals in which they are to be reported.

2. The Central Accounts (Accounts of Canada)

The central accounts are maintained by the Receiver General in accordance with his statutory responsibilities, one account for each appropriation as voted by Parliament and one account for each asset, liability, and reserve. The accounts are prepared by extracting from the data bank all transactions with source codes which identify cash receipts, expenditures, and transfers between appropriations. They provide the information which is reported monthly in the Canada Gazette.

Specialized accounting reports are prepared in the same way to meet the needs of such organizations as the Department of Finance, the Bank of Canada and Statistics Canada for information on the government as a whole.

3. Financial Reporting Services of the Department of Supply and Services

Departments are encouraged to obtain accounting and reporting services from the Department of Supply and Services because these services are an integral part of the cheque issue system and are capable of meeting the needs of most government departments as set out in this Guide.

In addition to the preparation of reports as a by-product of the recording of cash transactions, the following types of services can be made available to departments:

- the system can provide detailed and control records for accounts receivable (including aged accounts receivable listings), inventories and other assets and liabilities;
- the system can account for and report non-financial data, such as man-years and performance indicators;

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- the system can match financial data with non-financial data and can perform selected calculations on input and output, such as a percentage distribution of selected common costs and variance analysis calculations;
- the system can produce reports in graphic form;
- the system can prepare specialized reports for such purposes as cash forecasting and budgetary control;
- the system can satisfy the special accounting needs of revolving funds or working capital advances; and
- the system can sort and distribute reports directly to recipients in client departments.

The Department of Supply and Services is entitled to charge for services it provides. To date, it has not been general policy to charge for normal accounting or data processing services although charges are made for specialized applications, such as inventory control systems, where the system is not necessary to produce financial information for central reporting purposes.

Primary responsibility for using the available services rests with client departments. The Department of Supply and Services is willing to advise departments on their service needs and attempts to persuade its clients to adopt accounting reporting and contracting practices which it believes are appropriate.

Departmental reports are prepared by selecting, resorting and processing information available in the central accounting data bank. Cash accounting information is available as a by-product of the cheque issue and cash receipt systems, and departments may arrange to have non-cash transactions, such as accruals, budgets, commitments and non-financial data, input to the data bank to the degree that they require.

All central computer processing is performed in accordance with control file specifications prepared by or in consultation with client departments. Specifications proposals can be submitted on standard forms which require care to complete but do not require extensive computer or programming skills in client departments. In most circumstances, these types of information may be adequately set by financial officers. The types of information which must be specified include an interpretation of the departmental code of accounts, methods and levels of data aggregation, listings of alphabetic names for report headings, and the format and content of each management report required.

The monthly time schedule for the operation of the central accounting system imposes minimum standards of timeliness on all departments. However, within these minimum standards there are many variations depending to a great extent upon the priorities of client departments, their ability to meet specific deadlines, and the ability of local Services offices to cope with the volume of data received at the end of each month. At present, each department is responsible for arranging cut-off dates with individual Services offices. These cut-off dates are constantly being revised as refinements are made to the methods of assembling, editing, and processing data and to suit particular requirements of departments. Problems occur in local Services offices when the quantity of accounting transactions increases significantly at the end of each month, and departments are therefore encouraged to input transactions as they are received during the month. Departmental financial manuals should prescribe the cut-off dates which have been established across the country.

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Departments which place high priority on obtaining financial reports quickly have to meet earlier cut-off deadlines than other departments at local Services offices. In many instances, complete and accurate data cannot be prepared in responsibility centres, mailed to departmental accounting offices, and delivered and processed by local Services offices in time to meet self-imposed early cut-off deadlines. In practice, therefore, many responsibility centres have to establish internal cut-off dates which may be several days, or up to a week or more prior to the month-end. Financial reports dated on the last day of the month will thus reflect actual results at earlier points in time. Although financial reports may be prepared promptly in this way, they frequently are incomplete and their usefulness may be impaired. Departments should reconsider the need for deadlines which result in inadequate information being obtained.

4. Departmental Accounting Systems

Each department should ensure that the design and operation of its accounting system adequately satisfies the needs of management at all levels in government for financial information. A departmental accounting system should be a versatile and flexible tool for management purposes. Financial managers should continuously innovate with, modify, and improve the system to provide operating managers with more meaningful accounting information to support all management requirements. Although departmental accounting systems must be compatible with the needs of the fiscal accounts, which are maintained on a cash basis, this should not be a constraint on the ability of the accounting system to meet the needs of management. In appropriate circumstances, information such as accruals, commitment totals, memorandum information, forecasts, detailed costs, and asset values can be provided without conflict with central requirements.

The Department of Supply and Services has the capability to provide all departments with standard accounting systems which can be modified to meet individual departmental needs. These systems are provided on a service basis and are now used in varying degrees by different departments. Some departments rely entirely on the service; others use the service but also operate supplementary or subsidiary systems; and a few departments make no use of the service, preferring to operate completely independent systems. Variations from complete reliance on a central service are further described below.

The Department of Supply and Services operates the principal accounting system of most departments. This is the system used for controlling appropriations and allotments, and is the system to which other systems are reconciled.

Supplementary accounting systems have been developed by many departments to augment reports from the Department of Supply and Services' system with information of a special nature or format and the two systems run in parallel. In these circumstances, the financial reports obtained from the central accounting service generally include only cash transactions whereas the supplementary system may include additional information such as accruals, detailed cost information or variance analysis. Generally, each individual expenditure and revenue transaction is independently input to both systems.

Subsidiary accounting systems have been developed in many departments for specialized purposes such as cost, man-year, inventory, accounts receivable, or other types of reporting. These systems provide alternative or more detailed analysis of financial information which is included in the principal departmental system.

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Independent accounting systems have been developed by approximately twenty organizations within the public service including three major departments. For these departments, expenditures by appropriation and revenues are available for input to the central accounts of the government through the cheque issue and cash receipt systems, but detailed accounting information is not reported by the central system as is the case for other departments. Detailed accounting analysis is independently performed by the departmental accounting system and then reported by that system in form and detail suitable for central consolidation with data from other departments for purposes of preparing reports for the government as a whole.

a. Integration of departmentally operated accounting systems

All financial and financially related systems in a department must achieve the fullest practicable degree of integration with each other and with the central accounting system of the government.

The operation of two or more unintegrated accounting systems for one department is not conducive to good, co-operative, co-ordinated management and may create barriers to effective communication if information provided by one system is not in agreement with another.

In the case of accounting systems which are not fully integrated, every expenditure and revenue transaction, which must be input to the fiscal accounts to meet the responsibilities of the Receiver General, must also be input to the departmental system. This involves considerable duplication of effort.

There is also a danger that the financial information in one system is incomplete through error or omission. Although this danger can be eliminated if the systems are reconciled regularly to ensure that they are in agreement, these reconciliations may be difficult to perform because some types of data, such as accruals, may be included in one system but not in another, or because timing may be different for different types of data. In some circumstances where there are no controls, it may be impossible to determine whether the information in either system is complete.

The financial reporting services of the Department of Supply and Services are based on a single central data bank and full integration of accounting systems is possible for departments who use these services effectively. There may be circumstances where the benefits to be obtained justify the problems and extra costs involved in developing other departmental accounting systems. It is then necessary to ensure that the systems are effectively integrated in a manner which minimizes duplication and ensures that all sets of accounts are complete and accurate.

To achieve integration, computerized departmental accounting systems must be compatible with each other and with the central accounting system so that data can be freely exchanged between systems. Output of subsidiary accounting systems, for example an inventory system, should include financial information in a format suitable for direct input to the principal accounting system. Conversely, magnetic tapes of expenditures, revenues, and other accounting entries can be obtained from the Department of Supply and Services for purposes of inputting this information directly to departmental accounting systems if departmental processing is appropriate. These procedures reduce duplication of input, improve the reliability of departmental systems and enable departments to decentralize the accounting functions by making full use of regional Services offices for the assembly of data.

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b. Use of control accounts for purposes of integration

Where one accounting system is subsidiary to another, the use of a control account provides a means of ensuring that the two systems are in agreement. A control account is an account in one accounting system whose balance at any point in time is equal to the total of the balances of all the detailed accounts in a subsidiary system. In well designed computer, mechanical and manual accounting systems, amounts entered in the accounts of a subsidiary system are simultaneously either posted directly, or accumulated for subsequent posting in total, to the control account of the principal system.

The account maintained for each parliamentary appropriation in the central accounts of the government may be regarded as a control account which is supported by a number of detailed accounts in the departmental accounting system.

Where there are subsidiary accounting systems for such items as accountable advances, inventories, accounts receivable, loans, interest, grants and contributions, securities on deposit, and imprest accounts, the principal accounting system should contain control accounts. For example, one account can be maintained in the departmental accounts showing the value of inventories in stock which would be supported by detailed inventory records. In some circumstances the subsidiary records may not be a normal accounting record but an open file of source documents — for example, an open file of commitments or accounts receivable.

All control account balances should be independently and regularly agreed to the totals of balances in the subsidiary accounting systems. Specifically, each department is required to agree on a monthly basis the cash accounting information in its principal accounting system to the central accounts kept by the Department of Supply and Services. Generally, other control accounts should be agreed monthly, but daily, weekly, quarterly, or even annual agreement may be appropriate in some circumstances. Where the control accounts do not agree with the subsidiary system the differences should be identified and corrected. All reconciliations should be regularly reviewed and approved by supervisory financial officers, because reconciliations become increasingly difficult the longer they are postponed.

c. Responsibility when service organizations are used

When a departmental accounting and internal control system, or some element of such a system, is designed or operated by a separate service organization, the department being serviced should take whatever steps are necessary to ensure the adequacy of the products of the system. This is not intended to be restrictive because the use of common service organizations is frequently an efficient and economical alternative and the practice is to be encouraged. However, the department being serviced is ultimately responsible for the completeness, accuracy, and authority of its accounting records and must therefore assure itself that it has adequate means for assessing the reliability of the system and for performing the appropriate supplementary internal controls which cannot be divested to a servicing organization. The primary purpose should be to ensure that minimum standards of internal control are maintained at all times, but it should be recognized that there is a requirement to ensure that the services of another organization are used efficiently.

When a department assigns elements of its accounting responsibilities to a service organization, such a delegation should be the subject of a written agreement, authorized by the senior financial

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officer of the department, and specifying precisely what services are being provided and what responsibilities are assumed by the service organization for accounting and internal control. Normally the agreement should also specify the rights of the department being serviced to obtain information on:

- the design and operation of the systems operated on its behalf by the servicing organization;
- any amendments made to these systems; and
- the results of independent audits of these systems.

In some cases, it may be desirable for the department being serviced to insist on the right to conduct its own audit of systems operated by the servicing organization. For practical reasons, such a provision could not be included in agreements where the Department of Supply and Services is acting as the servicing organization. It should also be recognized that it may not be practicable for the Department of Supply and Services to obtain prior approval of clients for all systems amendments; nevertheless, client departments should be promptly informed of amendments as they occur and they should be consulted before changes are made that may affect the content of the financial information they receive. It is the responsibility of the senior financial officer in a department to take whatever steps are necessary, and retain evidence of these, to satisfy himself that agreements with servicing organizations are being adhered to and are adequate in relation to departmental systems and the requirements of this Guide.

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C. TIMING OF RECORDING OF EXPENDITURE TRANSACTIONS

In accounting for expenditures there are four basic methods of accounting which differ principally as to the time at which a transaction is recorded in the accounting system:

- Cash accounting — accounting entries are made at the time that funds are disbursed and the charge is made against the appropriation.
- Commitment accounting — accounting entries are made at the time a contract is entered into or an order is placed for goods or services to record the amount to be reserved out of the unencumbered balance remaining in an allotment in order to honour the commitment.
- Accrual accounting — accounting entries are made at the time that goods or services are received to record the receipt of the asset or service and the liability of the government to pay for these goods and services.
- Cost-based accounting — accounting entries are made at the time goods or services are consumed to record the cost of resources consumed in the accounting period in which the benefits are received.

Both commitment and cash accounting are required by statute and form the basis of the traditional system of government accounting. Commitment accounting is required to ensure that departments anticipate their expenditures so as not to exceed appropriation and allotment ceilings, and cash accounting is required to meet Parliament's needs for complete, accurate and informative data on the cash transactions of government.

While there is no statutory requirement that accrual and cost-based accounting be practiced in government, departments should recognize that these methods of accounting may result in more useful reports for management than reports produced on a cash basis. Most definitions of accrual accounting incorporate the concept of cost-based accounting as it is described above. The distinction made in this Guide between cost-based and accrual accounting is useful for government purposes because it separates conceptually the recording of accurate costs of resources consumed from the recording of assets and liabilities. The latter has less significance in government than in industry because a government's statement of assets and liabilities has more limited significance for financing purposes. Nevertheless, the recording of costs in a cost-based system is facilitated by accrual accounting because accrual accounting ensures that all transactions that have taken place in the period are reflected in the accounting system for inclusion in the period's costs when the related goods or services have been consumed.

1. Cash Accounting

Cash accounting is the principal method of accounting in the Government of Canada because it provides financial information in a form which is most appropriate for parliamentary control requirements. For certain administrative agencies it also provides information which satisfies most managerial control requirements. Since the appropriations of the Government of Canada are provided on a cash basis, departmental accounts must be maintained in the first instance on a cash basis.

Because the Receiver General is responsible for receipts into and payments out of the Consolidated Revenue Fund, cash accounting information is readily available from the central accounting records of the Department of Supply and Services. It is important for cash transactions to

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be processed promptly if the information obtained from these records is to reflect all transactions that have taken place in a department. The Department of Supply and Services has offices readily available to most responsibility centres; transactions should go directly from the nearest financial office having authority to requisition payments on behalf of the departmental responsibility centre to the nearest Services office. This will result in more timely and useful financial reports, as well as settling more promptly amounts owing to persons or companies rendering services to the government.

Where management has limited short-term control over costs, and unit costs do not need to be computed on a periodic basis, cash accounting systems will meet most managerial requirements provided the system is functioning efficiently.

2. Commitment Accounting

The requirements for commitment accounting are outlined in Chapter VI where the subject of budgetary control is discussed. Deputy heads have a statutory responsibility to establish commitment control systems. Some departments also have a responsibility for ensuring that total commitments for all fiscal years do not, at any point in time during the fiscal year, exceed the limit imposed by Parliament for each appropriation.

While commitment accounting systems may be independent of the principal departmental accounting system, period-end data on commitments should normally be input for purposes of financial reporting. For departments which are using the financial reporting services of the Department of Supply and Services, totals of commitments can be input to the accounting system by manual listings which are automatically reversed in the following month. Commitment information can then be included or excluded from any reports prepared according to specifications set by each department.

The system may consist of an open file of commitment documents. One open file should be maintained for each sub-division for which allotment control is to be exercised. The total value of outstanding commitments in this file can be determined at any time by aggregating the documents in the files. There should be adequate accounting controls, such as sequential control of commitment documents, or summary cards, to ensure the completeness, accuracy, and authority of the files.

Where particular commitments are outstanding for an extended period of time or where a continuous total of commitments is essential, as in the case of capital projects, it is normally preferable to supplement an open file system with a simple ledger or journal which identifies the balance of each undischarged commitment and the total value of outstanding commitments.

Commitment information must be readily available to officers who have spending authority and who take actions which will subsequently result in charges against the appropriation. The officers must be able to call for this information if there is any reason to believe that there is a possibility of reaching a full commitment situation for any allotment.

The standards of completeness, accuracy, and authority applicable to all information in commitment records are the same as those applicable to any accounting system. Control procedures should be documented in the departmental financial manual accompanied by specific departmental policies on the timing and methods of recording particular types of commitments, such as operating expenses, salaries, capital expenditures, multi-year commitments, expenditures out of imprest accounts, advances, and grants and contributions.

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3. Accrual Accounting

Departmental accounting systems should be designed to permit accrual information to be entered in the accounting records wherever it is necessary to satisfy requirements for cost-based accounting.

As explained previously, accrual accounting involves recording the receipt of an asset or service so as to identify the liability of the government. Accrual accounting, as usually defined, also includes the deferring of expenses to obtain accurate identification of costs consumed during an accounting period, but this aspect of accrual accounting is discussed separately in the next section under the heading of cost-based accounting.

Accrual accounting lays the basis for an accurate matching with respect to time of accounting information with non-accounting information, and of costs against output, performance data or revenues. Its purpose is to record all transactions that have taken place during a specific period of time regardless of the timing of cash payments or receipts.

Because of the geographical dispersion of some departmental programs, prompt disbursement of cash is not always possible, and input of non-cash transactions may be required to record transactions pending cheque issue. Moreover, some accounts may have to be held up because there is a discrepancy or an absence of all information necessary for the payment to be approved. Through accrual entries, the accounts can be adjusted to input transactions that would otherwise not have been reported through the normal cash accounting system. The extent to which accrual accounting is practiced in any department must be governed by considering the additional cost of accrual practices as compared with potential benefits in terms of better cost data.

Accrual accounting must be practiced in a manner which does not interfere with the operation of the cash accounting system since financial managers at both the central and departmental levels in government need complete, accurate and current cash information if they are to manage cash appropriations effectively. This limitation should not be restrictive, because with the effective use of accounting techniques and financial reporting systems, departments are able to provide both cash accounting and accrual accounting information without conflict, duplication, or misinterpretation. The financial reporting services of the Department of Supply and Services enable financial reports to be prepared on both a cash and accrual basis according to the needs of the recipient.

Departmental accounting systems should be designed to ensure that accounting transactions which have received managerial approval as at the date of an accounting report are included in that report. This is a minimum standard for accrual accounting. If accounting or financial reports do not reflect transactions that an operating manager knows have taken place and which he has reported to an accounting office, then the financial reports will not have credibility for the manager, and with some justification, will not be used. If there is a delay in obtaining financial authorization or if the transaction cannot be processed through the cheque issue system in sufficient time, an accrual entry is required and should be input by financial staff as soon as the delay is recognized.

Departmental accounting systems should be designed to enable accruals to be recorded for goods and services which have been received and for which a definite obligation for payment will arise in the future even though an invoice or statement may not have been received from the supplier. This standard should be applied for those individual responsibility centres in a department where the result of timing differences between the date on which the goods or services are received and the date on

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which managerial approval is granted are likely to have a significant effect on the content or usefulness of financial reports. If one transaction is material in amount the standard may be applied on an exception basis; if an accumulation of routine transactions is material in amount it should be applied on a continuing basis to ensure the completeness and accuracy of the information reported. Techniques for accrual accounting are described in Appendix VIII-1.

4. Cost-based Accounting

Departmental accounting systems should be designed to provide accurate, periodic cost information on the various activity elements involved in carrying out departmental programs. Although not necessarily the main factor, financial costs cannot be overlooked in arriving at decisions in government. With the increasing delegation of financial authority to managers at lower levels and with the increasing emphasis on performance of managers in attaining program objectives, there is need for consistently prepared, reliable and timely cost information to account for the consequences of decisions. Cost information can also be used as a basis for preparing future plans and budgets, as a means of controlling, measuring, or comparing current operations, as a basis for cost-benefit analysis and make or buy decisions, and as a means of determining revenue charges. Periodic cost information should be available on the basic components of departmental operations, such as individual projects, tasks, services and products, for purposes of monitoring the performance of managers.

Cost-based accounting involves choosing among a combination of accounting techniques and methods within the constraints of certain conventions to produce cost information which is useful to management. There are many ways of computing costs and the term "accurate cost" has meaning only when the selected techniques, methods and conventions are known. Those who are responsible for preparing cost information must understand the uses to which the data may be put in order to ensure that the cost information is not misleading. Similarly, those who use cost information must have a knowledge of the basis on which it has been computed. Costs have no usefulness in themselves; their value depends wholly upon the action which management is able to take in the light of the information they reveal.

For example, if cost information is to be used to support a make or buy decision involving an entirely new operation of government, it is desirable to include all appropriate overheads in the costs, whereas if the make or buy decision involves an existing government operation, sunk or continuing costs should be ignored. It is important to include only those costs which are relevant to the management decisions or actions which may result.

Consistent application of accounting conventions is of prime importance, and it is particularly essential in those instances where cost information is to be used for comparison of costs over a period of time, or of two or more alternatives at a given point in time. Frequently, a record of costs over a period of time, if established consistently, may be an extremely useful indicator to management even though, as absolute values, the costs may not be complete or have significance.

A cost-based accounting system must be integrated with the primary cash accounting system of a department to ensure the completeness of the cost information and minimize duplication.

It is primarily the responsibility of financial officers to identify the needs for cost information in their departments, to suggest techniques which will meet these needs, and, with the concurrence of management, to implement techniques which will efficiently and effectively generate this information in a meaningful form.

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Operating managers will often recognize the need or potential benefits and usefulness of cost information, but they should not be expected to determine or apply the various techniques and mechanics to obtain the information they require. However, no cost data should be developed without the full concurrence of the appropriate manager who must understand what costs are included and excluded, how accurately they are computed, the degree to which costs can be meaningfully matched with non-financial information, such as performance indicators, and any limitations of which they might not be aware. Moreover, the financial officer should normally seek to provide data which has the confidence of line management and he can only do so by utilizing techniques which are based on sound, observable and objective data, most of which originates with the line manager.

It is also the responsibility of the financial officer to support management by analysing and interpreting cost information. This includes explaining variances in terms of price, volume and efficiency, where this is practicable.

Techniques for allocating and identifying costs are described in Appendix VIII-2.

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D. ACCOUNTING FOR INVENTORIES

Inventories of materials and equipment may be regarded as expenditures in suspense, and accordingly, accounting and control techniques applicable to them are described in this chapter on accounting for expenditures. Accounting and control procedures are basically the same for the purchase of inventories as for regular transactions, but because inventories have continuing and often significant value for some period of time after their purchase, additional procedures are required to account for and control them until they have been consumed in operations or otherwise disposed of. Appropriate accounting and control techniques will vary between departments depending on such factors as the quantities, dollar values and attractiveness of inventory items, and the need for accurate cost information. In selecting appropriate techniques, departments should consider the general requirements of management for visibility, accountability and control in all financial matters. Through proper accounting for inventories, financial reports can be significantly improved, custodians can be held accountable for the assets under their control, and decision making on the acquisition and utilization of assets can be facilitated.

In this section the need for accounting control of inventories is discussed; techniques for controlling inventories of materials and equipment through accounting records and physical counts are explained; and some considerations on the financial reporting of inventories are presented.

1. The Need for Accounting Control over Inventories

Responsibility and accountability for the custody and use of an asset extends over its useful life, especially where the useful life exceeds the fiscal year and the bounds of normal parliamentary financial control. Financial officers should recognize that effective management of cash resources cannot be achieved without equally effective management of assets after they are acquired for cash. While financial officers should not assume functional responsibilities which have been assigned to other functional disciplines, such as materiel management, or to operating managers, they should ensure that significant information relating to the custody and use of assets is expressed in financial terms and is integrated with the principal budgetary, accounting and reporting systems of their departments.

Within a department, the extent to which financial control of assets is appropriate will vary according to the circumstances of each responsibility centre. Financial control should be established only where there is a legitimate need or usefulness for the additional financial information or for the additional internal control that would result. For example, financial control of stationery supplies would rarely be useful for most responsibility centres, although this would be expected of specialized units concerned with printing and publishing, or materiel handling and central storage areas.

Financial officers in each department should ensure that requirements for accounting and financial control over inventories of materials and equipment, including clear identification of inventories which must be controlled, are communicated to line and functional managers responsible for custody of inventories.

Inventories of materials and equipment are recorded at nominal value on the Statement of Assets and Liabilities of the Government of Canada, and there is no statutory requirement for them to be recorded in total in the central accounting system of the government, nor is there any regulatory requirement for detailed departmental accounts, except where they are financed by means of a working capital advance or revolving fund. However, a number of reasons why departmental management should consider establishing accounting control over such assets are stated below.

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a. Independent control over custodians

Each department should have systems to ensure that all physical assets are in safe custody to protect against the loss of assets through theft or misuse. The management of assets is normally the responsibility of operational managers or of specialized functional managers, and these managers will often operate independent systems to record the costs of assets on hand. Where detailed inventory records are maintained at either operating or functional responsibility centres, internal control will be strengthened if the duties of custodians are clearly separated from those of the record-keepers. In addition, and in accordance with the principles established earlier in this chapter, these record systems should be considered as subsidiary accounting systems and ought to be integrated with the principal accounting system of the department. Operation of a control account in the principal accounting system provides independent control over those operating the subsidiary system, ensuring that they do not write off or otherwise dispose of assets without appropriate authority. The attractiveness of assets and the opportunities for misuse should be taken into account in determining the need for independent control.

b. Effect on budgetary control

Investments in inventories of materials and equipment are more readily managed than most other expenditures. As such, opportunities are provided to cushion the effect of budgetary constraints by depleting inventories or to use up otherwise lapsing funds by building up inventory levels. This may be good management of financial resources, but it should only be done with the full knowledge and approval of senior departmental management and the appropriate program officer of Treasury Board since current year appropriations are granted to satisfy current year operational expenditures. Where inventory movements distort the true operating results of a responsibility centre or the cost of an activity, senior management may be misled and may lose control over the operational performance of their subordinates. In addition, since there are substantial costs involved for the government in carrying inventories, including the risk of obsolescence, it is important that the total investment in inventories be readily known from year to year.

c. Need for accurate cost information

The need for cost information was identified in the previous section of this chapter. By integrating inventory systems with the principal accounting system, the effect of changing asset levels on costs is eliminated from reports produced. Materiality will be particularly significant in determining needs in this area. In this respect consideration should be given not only to the effect of inventories on the program as a whole but also to the effect on the evaluation of performance of an individual responsibility centre.

2. Techniques for Accounting for Inventories

Inventories of materials include consumable operating supplies and raw materials, goods in process of production, and goods held for sale or re-issue.

Inventories of equipment include items which are not expendable except through depreciation and normal wear and tear and which are normally susceptible to running maintenance. Examples are mechanical and electrical machinery or equipment, motor vehicles and furniture. Practices for the financial control of equipment may also be applied to minor capital items, small buildings, and holdings of real estate which may be the property of departments.

The General Guide for Materiel Management in Government issued by the Treasury Board as Management Improvement Policy MI-1-65, amended by Circular No. 1968-25, is a comprehensive guide for use by departments when reviewing their materiel management systems and procedures. Appendix VIII-3 to this chapter sets out certain complementary guidelines dealing with financial control.

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3. Financial Reporting of Inventories

The principal financial reporting system of a department should report totals by category and by responsibility centre of significant values of materials and equipment on hand at the end of each accounting period, with accumulated totals being reported at higher levels of responsibility where appropriate. The totals reported are useful as absolute values, particularly at lower levels of responsibility, where for example, it may be desirable to ensure that minimum inventory levels are being maintained. The totals when compared with budgeted levels and previous experience are also a convenient basis for identifying the effect of changing asset levels on the system of budgetary control over cash appropriations.

It may also be desirable to report certain exceptional conditions in the principal departmental accounting system either as an analysis of the total balance or as charges to responsibility centres for such items as obsolete, slow moving or damaged inventories, or under-utilization of equipment or real estate.

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E. ACCOUNTING CONTROLS

The need for accounting controls exists in all systems which collect, record, and report financial or related non-financial information. These include the Government of Canada central accounting system, the central payroll system and the principal and subsidiary accounting systems of departments.

Accounting controls must be an integral part of a departmental accounting system to ensure that all transactions which should be included in the system are included without omission or duplication, that all transactions are entered and processed accurately, and that only properly authorized information will be accepted by the system.

The standards of accuracy and authority required for financial transaction data apply equally to operational data. Financial officers should be involved in the design of any systems which generate non-financial operational data and should exercise sufficient control over such data to ensure its accuracy and comparability with financial data.

The adequacy of the accounting controls is a matter for experienced judgement in each situation. It must be based on a thorough assessment of the contribution and significance of each of the individual controls operating within the complete accounting system, and in accordance with the significance of the information being processed, the potential for error, the materiality of errors which may ensue, and the cost of maintaining the required control.

There are a number of well established techniques of accounting control which should be understood by all financial officers and personnel involved in developing and operating accounting systems for it is their responsibility to select the most suitable combination of controls for each system. Where part of the accounting system is computerized, the controls established manually must be designed to complement the controls performed electronically to ensure that there are no gaps in control, to avoid unnecessary duplication, and to maintain control as economically as possible.

Evidence of the performance of each accounting control is the only practical basis on which to ensure that accounting controls are being maintained. A signature is the most desirable form of evidence of work performed because it clearly designates who is assuming responsibility for each control function and it is suitable at all levels of responsibility. A transaction should not be processed through one point in the system unless evidence is available that it has been processed through the previous stage. For example, evidence may be required that a transaction has been recorded in a subsidiary account, that the arithmetical accuracy has been checked, that certain data have been matched to another source, or that particular approvals have been obtained. Evidence should also be provided to supervisors and managers that certain of the non-processing accounting controls are being maintained — for example, that required reconciliations and balancing procedures are being performed. Accounting controls established electronically by a computer should also be evidenced through a combination of special print-outs to operators or users, and by periodic confirmation or testing of the programs involved.

Errors can occur at all stages in an accounting system. The types of errors which are likely to arise out of manual operations include errors in transcription of information from one document to another, errors in additions and calculations, errors in assigning accounting or other reference codes, omission or loss of transactions or of significant data on a transaction, and duplications. The types of

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errors which are likely to arise in a computer environment include mechanical errors, errors from electrical malfunctions, errors in computer programming, inaccuracies, duplications, or omissions of data in processing, and loss or damage to files containing accounting information.

In government, with the concepts of responsibility accounting on a decentralized basis, and the maximum use of common services, it is particularly necessary to maintain controls to ensure that a transaction chargeable to one responsibility centre, to one accounting office, or to one department cannot be charged to another, either intentionally or in error.

In any accounting system, accounting control should be established as early as practicable in the system, and once established, should be maintained through all stages of manual, mechanical, and electronic processing. In most systems this will require a combination of accounting control techniques performed manually and electronically.

In simpler systems it may be practicable to establish a control on data at the time of input, and verify this control at the time of output. However, in most systems an integrated combination of manually or electronically performed controls will be required. As a transaction is processed through the system, an established control condition should not be dropped before a complementary control has been established thereby ensuring that control is maintained at all times.

Wherever possible, completeness and accuracy controls should be established before a transaction is authorized for input to an accounting system. If these controls are then maintained through all the following stages of processing, they should preclude the possibility of unauthorized transactions or alterations being subsequently introduced. For example, batch controls should be established before final financial approval is given to any documents input to an accounting system, and the approved documents should not be accessible to the clerk responsible for establishing batch control until they have been processed by the system.

Techniques for exercising accounting controls are set forth in Appendix VIII-4.

1. Computer Applications

Data processing managers are responsible for the development and maintenance of effective, efficient, and controlled computer operations, and generally they will employ for all processing applications minimum standards of organization, systems design, programming, and operating controls to prevent most of the types of errors which are likely to arise in the computer centre itself.

There is need for judgement in applying controls and in determining the degree of control required for each application. Financial officers, not data processing specialists, are ultimately responsible for the accuracy of financial information and must therefore ensure that certain minimum standards of accounting control are being maintained over the computer activities. Only when this has been established can they develop adequate manual systems of internal control to complement the controls within the computer. This Guide is concerned only with the general principles of accounting controls. For a specific discussion on accounting controls for computers, financial officers can refer to Computer Control Guidelines, a publication available from the Canadian Institute of Chartered Accountants.

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Special attention is drawn to the principle that in computer applications the types of accounting controls that are applied to individual transactions must also be applied to standing data and any amendments to systems programs. Standing data represents information such as employee rates of pay and salaries, inventory prices, balances brought forward, and other data which will be used by a computer system to generate financial information. For example, for a payroll system, external control totals of the number of employees on file and the total value of the standard gross wages should be maintained and verified with each payroll processed. External controls should be established before an amendment to standing data receives final approval to ensure that unauthorized amendments cannot be introduced. All other control techniques should be applied as discussed for accounting transactions. Periodically, the completeness, accuracy and authority of standing data on a file should be verified by, for example, confirming manually a complete print-out of standing data on the file.

Similar controls should be maintained on amendments to systems programs to ensure that no unauthorized changes can be made to the system.

2. Special Considerations when Using Financial Reporting Services of the Department of Supply and Services

Departmental financial officers must develop their own accounting controls on the basis of a thorough understanding of the services being provided by the financial reporting services of the Department of Supply and Services to their departments. The following features of the system illustrate this need:

- Errors may be identified in departmental accounting offices, in local Services offices, or at the time of electronic processing centrally. Special procedures are required in departments to ensure that all types of rejected data are adequately controlled, promptly input again to the system, and the person responsible for making the error is notified of the corrective action taken.
- Certain significant fields in the code of accounts, such as activity, project, or cost codes, are edited and validated during processing only at the option of client departments. Many departments do not require an edit of these fields but where it is important that data in these fields be recorded completely and accurately, supplementary manual checks should be introduced such as a one-to-one check of source documents to computer listings to ensure that all input has been recorded and key-punched correctly.
- The Department of Supply and Services maintains electronic controls to ensure that the total of dollars input to local Services offices by each department is equal to the total of dollars reported to the department. However, within this overall control it cannot ensure that input is equal to output in respect of individual responsibility centres or that errors or unauthorized charges do not occur between responsibility centres. Each departmental financial office should maintain an overall control to ensure that input is equal to output in respect of those responsibility centres which it serves and this control can best be maintained by accumulating totals of batches submitted to the system and independently agreeing these totals to the financial reports.
- All departments are not required to establish batch controls before documents are forwarded to Services offices for cheque issue and input to the accounting system. Where this is not done, each individual accounting transaction should be checked in detail to computer listings to ensure that there have been no errors or omissions in processing and there have been no unauthorized adjustments to the documents subsequent to departmental financial approval.

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- Because the system is based on the principle that users may specify any data in the data bank which they want to include or exclude from any given report, controls are not maintained to ensure the completeness and accuracy of most management information reports. At the time a new report specification is introduced, it is the responsibility of departments to ensure that the output received is exactly as specified, without error, omission, or duplication of data. This can be achieved either by reconciling the statement totals with previous reports or by manually agreeing total input with output for that report.

3. Establishing an Accurate Accounting Cut-off

The accounting records should reflect all accounting transactions which take place up to and including the date which is indicated on the financial reports. As a minimum standard, if an operating manager is to respect and use a financial report, it must contain all transactions which have received his managerial approval at that date. Departments should introduce accounting procedures to ensure that the above conditions will be met.

A number of techniques may be used to assist in establishing an accurate cut-off. All missing numbers in a sequential control should be accounted for before closing off. All documents should be dated as each operation is performed. Procedures should be formalized to ensure that all documents are submitted to accounting offices on a specific day each month. Once other accounting controls have been established there should be no difficulty in obtaining an accurate cut-off.

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F. MECHANICS OF CODING SYSTEMS

All departments must establish a code of accounts which will enable financial information to be analysed in accordance with the object, activity, and responsibility structures of the department, with the needs of operating and financial managers for supplementary cost, asset, liability, or other financial information, and in accordance with the requirements of the fiscal accounts or of central agencies. The code of accounts must also recognize the needs of those responsible for processing accounting transactions. The Department of Supply and Services can better render services to departments if the departments they service establish codes of accounts following a reasonable consistent pattern.

The code of accounts is the means by which each specific transaction is identified with the accounting codes used to accumulate aggregate data in the accounting system. It therefore determines the information that can be obtained from the accounting records.

1. Description of Code of Accounts

The total code of accounts includes a portion which is set by the Department of Supply and Services and a portion which is set by individual departments.

Certain standard codes are assigned on each accounting transaction through the batch control procedures of the Department of Supply and Services in order to ensure that cash and non-cash transactions are separately identified and that accounting trails are maintained on all transactions in the system. These codes identify:

- the department — separate numbers are allocated to each department;
- the local Services office — separate numbers are allocated to identify the Services office which initially accepts the transaction for processing;
- the batch — separate numbers permit reference to the batch of source documents retained in each Services office; and
- the source — separate numbers permit identification of the nature of the transaction, such as cheque issue, payrolls, journal vouchers, accruals, non-financial, or commitments.

Other codes are assigned by departments which have each developed their own code of accounts with the numbering system and block format which they consider most appropriate. Treasury Board policy statement MI-8-66, a summary of which is attached to the chapter on Classification of Accounts as Appendix IV-2, includes the following restrictions:

- the central accounting system must be able to identify the parliamentary appropriation, asset or liability account to which a transaction is to be charged in the central accounts;
- the departmental line objects, which are the lowest level of analysis by object in each department, must be directly compatible with the economic objects which are the lowest level of analysis by object for the government as a whole;
- the coding fields must be arranged in a prescribed sequence;
- the total number of digits in any one field must not exceed nine; and
- the total number of digits in the coding block must not exceed twenty-five.

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Within these limits, each department has developed a code of accounts and a coding block which normally identify the following:

- the vote — the parliamentary appropriation, Treasury Board allotment, or asset or liability account;
- the responsibility centre or the cost centre — the organizational unit to which the transaction should properly be charged or credited;
- the activity — the purpose or lowest level of sub-activity to which the transaction should properly be charged or credited;
- the object — the nature of the goods or services acquired or consumed or the nature of revenue earned or received; and
- optional codes — the cost account, operation, project, process, element, task, item, job, committee, geographical region, consumer or product group, individual, or any other particular analysis or grouping of transactions which may be appropriate and which does not constitute an activity, a responsibility or cost centre, or an object of expenditure.

2. Use of Collator Codes

The use of collator numbers is a useful method of simplifying the task of coding accounting documents and at the same time both increasing the flexibility of the coding system and reducing the possibility for error. At any single responsibility centre, most of the digits in the expenditure coding classification tend to be the same for all transactions. For example, all expenditures generally have the same codes for the program, the parliamentary vote, the sub-vote, the responsibility centre number, the main activity, and the first level of sub-activity. Any one of these fields of information can be up to nine digits in length, but they collectively total 12 digits for most departments. If a collator code is used, one collator number of four or five digits, can be substituted for the 12 digits when coding transactions. Later, during electronic processing the collator code can be interpreted to impose the full code of accounts on each transaction exactly as if the detailed coding were assigned on each input document.

There are many advantages to using collator codes:

- The amount of manual coding which is required on each source document is reduced and simplified, and errors are less likely to occur in departments at the time of assigning the codes to source documents and in computer centres at the time of conversion of data by keypunching or encoding to computer input.
- Certain inconsistencies which frequently arise through undetected coding errors are eliminated — for example, the condition of activity totals not agreeing with responsibility totals within the same responsibility centre.
- Collator codes can be established in a sequence which facilitates use by clerical personnel and operating managers in a responsibility centre and frees them from any need to acquire a knowledge of the complete departmental code of accounts.
- Collator codes facilitate the editing of input data during computer processing because if a collator is valid, the imposed coding will also be valid, and the majority of invalid items will be rejected at one stage in the processing rather than at several stages as a transaction is processed through a variety of computer routines.

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- The departmental coding which may be input to the Department of Supply and Services is restricted to a maximum of 25 digits. If necessary, and with the use of collators, this can be increased during processing to at least 40 digits. This facility permits a substantial amount of special financial or cost analysis to be performed.

If collators are used, each responsibility centre will usually require one collator for each of the lowest levels of sub-activity in which it participates, and where required, one collator for each revenue, asset and liability account.

3. Circulation of Code of Accounts

All departments should fully document the code of accounts in a comprehensive coding manual which should be a part of the departmental financial manual. The manual should explain the use and significance of each field in the departmental code of accounts. It should explain any special actions or unusual treatment required on any contra, asset or suspense accounts, and it should list all the valid codes for the department with adequate narrative descriptions of each code so that it may serve as an authoritative reference for all financial and other officers using the code of accounts. One copy of this manual should be available for reference in each office where coding is performed.

The comprehensive manual should be supplemented with a code of accounts tailored for each responsibility centre to provide a simple and ready reference of all codes likely to be required for each responsibility centre manager and clerk performing a coding function. All supplementary lists should refer to the comprehensive manual for advice on unusual transactions.

Special procedures are required to ensure that all coding manuals and lists are up to date and that participants, including personnel and purchasing units, are advised of all amendments. Each page of the coding manual and the code of accounts list should be given an effective date and coding manuals should be updated annually.

4. Uniform Departmental Coding Block

It is not, at this time, policy that all departments must use a uniform coding block. However, departments are encouraged to co-operate with the Department of Supply and Services in eliminating unnecessary variations. By effectively using collator codes, all departments should be able to fulfill their own requirements for a unique code of accounts, but within a uniform coding block for all departments.

There are significant benefits to be realized by individual departments and the government as a whole if a uniform coding block were adopted:

- The uniform coding block would make full use of collator codes which contribute to increased efficiency and accuracy in the departments and in computer centres.
- The uniform coding block would facilitate the preparation and control of documentation supporting interdepartmental charges and settlements.
- The uniform coding block would facilitate obtaining maximum use of common services and exchanges of services between departments for such items as inventory control or accounts receivable systems.

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- The editing and validating of information by the Department of Supply and Services could be performed on a regular basis by computers in regional Services offices. This would enable errors to be detected, reported to departments and corrected before data is transmitted to central computers for processing. Because of the diversity of coding blocks for all departments, editing and validating can now only be performed easily during main processing routines in the central computers. As a result errors cannot be detected and input again to the system without time delays.

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TECHNIQUES FOR ACCRUAL ACCOUNTING

1. Introduction

- 1.1 This appendix describes some techniques appropriate for introduction at responsibility centres for the purpose of accruing costs in respect of goods and services. It also draws attention to the need to ascertain the adequacy of present automatic payroll accruals.

2. Principles

- 2.1 Expenditure records should be kept primarily on a cash basis, with month-end accruals being entered where the usefulness of the reports is thereby improved. A full accrual accounting system, as is frequently found in industry, where most transactions are entered in the accounting records when the goods or services are received, will not normally be necessary for most government departments.
- 2.2 Month-end accrual entries should be automatically reversed in the following month. In this way, all cash payments can be processed as direct charges to the responsibility centre, and there is no need to be concerned whether the individual transaction was recorded previously as an accrual. In addition, minor inaccuracies or omissions in determining accruals will cancel out and thereby not create any difficulties in subsequent periods.

3. Communication

- 3.1 Managers of responsibility centres should be responsible for originating accruals and should be provided with a document for communicating their accruals to accounting offices at the end of each month. This document should be suitable for direct input to the accounting system after approval of the manager concerned.
- 3.2 Procedures should be established in accounting offices to ensure that all responsibility centres submit an accrual report, even a nil accrual report, at the end of each month.
- 3.3 For those departments who are using the financial reporting services of the Department of Supply and Services, accruals may be input to the system on manual listings which will be reversed automatically in the following month.

4. Sources of Accrual Information in Respect of Goods or Services

- 4.1 The basis for establishing month-end accruals can be satisfied through the use of an open file of accrual documents. In the case of goods received, there will generally be a shipment and/or receiving document and a purchase order available on which to base an accrual.
- 4.2 Where there is a high volume of transactions, as would be the case for a major stores location or warehouse, these documents should be subject to sequential or other accounting controls. It may be appropriate in such cases to maintain a control record with a continuous balance of accruals outstanding supported by the source documents.

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4.3 Where there is no documentation specifically identifying the amount to be accrued in the month-end, estimates of significant amounts owing should be made, particularly in the case of purchased services. Types of accruals which should be estimated include significant charges for professional services, rentals, or travel costs.

5. Accruals in Respect of Payroll Costs

5.1 In accordance with the procedures outlined in Treasury Board Circular MI-1-69 dealing with monthly financial reporting of pay, a month-end accrual accounting entry is input to departmental accounting systems automatically through the central pay system. This accrual, which is based on the gross cost of the most recent bi-weekly salary payroll and the number of remaining calendar days in the month, is incomplete and depending on a department's requirements may be inadequate because:

- the accrual applies only to continuous, full-time, salaried employee payrolls, and does not include costs of casual and hourly employee payrolls which, if required, must be computed by individual departments;
- the accrual does not include all adjustments, such as overtime, leave without pay, new employees, terminations, or other changes in status which occur subsequent to the payroll date;
- the actual payrolls, on which the accrual is based, must be prepared several days in advance of issue and therefore do not include all adjustments effective prior to the pay date; and
- an accrual based on the calendar month may not be as useful as an accrual based on a weekly or hourly time distribution system, or on the working days in the month, particularly if periodic financial data is to be matched with non-financial data, such as performance measurements, for management information purposes.

5.2 Where these shortcomings are considered significant, departments should establish alternative means of accrual accounting for payrolls by introducing accurately computed accruals at the end of each month combined with whatever cost allocation techniques are necessary.

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TECHNIQUES FOR ALLOCATING AND IDENTIFYING COSTS

1. Introduction

- 1.1 This appendix describes some techniques for deferring or redistributing expenditures to achieve more accurate cost identification. It should be emphasized that considerations of parliamentary control limit a department's freedom to redistribute costs among votes, and where funds are provided for a purpose in a vote, such costs cannot be reallocated to other votes except on a memorandum basis.
- 1.2 Within a vote, departments can achieve more accurate costing by use of suspense and contra accounts or by use of memorandum allocation systems to pick up costs chargeable to other votes or to other fiscal years. These two alternatives are first discussed and then techniques of standing percentage cost allocations and standard costing are described.

2. Suspense and Contra Accounts

- 2.1 Through the use of these accounts actual costs can be recorded in the accounting system at the normal time of cheque issue, while a redistribution of these costs in a more meaningful way can be achieved through supplementary accounting entries.
- 2.2 The difference between suspense and contra accounts is illustrated as follows:

2.2.1 Suspense Account

The suspense account is charged with actual costs arising out of cheque issue.

The suspense account is credited and the appropriate expense accounts are charged when the cost allocation is computed.

2.2.2 Contra Account

One contra account is charged with actual costs arising out of cheque issue.

Another contra account is credited and the appropriate expense accounts are charged when the cost allocation is computed.

- 2.3 The advantages of both of these alternatives are that:

- the accounting office has full control over the amount charged to the expense accounts which are reported to a manager as his costs; and
- the allocation of costs is fully integrated with the principal accounting and reporting system and the cash basis of accounting is not significantly disrupted.

- 2.4 The further advantage of using contra accounts is that the gross amounts of the transactions entered in the contra accounts remain intact for subsequent reference or as control accounts for subsidiary ledgers.

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- 2.5 The use of a suspense account highlights variances, as any amount which remains in a suspense account represents the difference between the actual costs and the computed cost allocation. If this amount is material, there may be a major error in either the actual costs or the computed cost allocation. If the amount is not material, the balance in the suspense account may be carried forward and eventually disposed of at the end of the fiscal year.
- 2.6 The operation of suspense and contra accounts does not alter the total costs charged to responsibility centres because the costs allocated are the same as the actual expenditures made. It is normally desirable to record the suspense and contra accounts on a separate report used only by the accounting office so as not to involve line management in accounting details with which they need not be concerned.
- 2.7 The following examples are illustrative of the variety of uses to which suspense and contra accounts can be put in allocating costs:

2.7.1 Stores and Materials

At the time of payment, a stores responsibility centre is charged with the cost of materials purchased. At the time of issue, other responsibility centres are charged with the cost of materials issued, and the stores responsibility centre is credited. In this case, the net amount in the materials account, which in effect has become a suspense account of the responsibility centre, will represent the value of stock levels, and each responsibility centre will be charged only with the cost of materials consumed.

2.7.2 Personnel Costs

A suspense account in the accounting office is charged with the cost of payrolls; the account is credited when responsibility centres are charged with a computed allocation of personnel costs. The salary rates used in the cost allocation could be based on standards, averages or estimates. The allocation could be based on time, production, or on any other acceptable basis. The practice could be adopted for the department as a whole, for a group of responsibility centres, or for any individual responsibility centre that wanted to allocate pay costs.

2.7.3 Common Services

The responsibility centre providing the service is charged with the actual costs of operating the service; other responsibility centres are charged with the computed value of services provided and the centre providing the service is credited with the same amounts. This is an instance where the use of a contra account would be more appropriate than a suspense account since both the gross costs and the allocated costs are significant information on the management reports of the service organization.

2.7.4 Objects of Expenditure

A suspense account is charged for actual amounts paid in respect of an object of expenditure which is paid irregularly while responsibility centres are charged and the suspense account credited with a regular monthly cost allocation. This application can be used to allocate evenly costs which may be subject to uneven and uncertain periodic payments.

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3. Memorandum Cost Allocation

- 3.1 Memorandum cost allocation enables an organization to achieve full costing by including in reports such items as accommodation costs, depreciation of equipment or buildings, and common service costs financed by other votes or departments. Memorandum entries are not input to the principal system for accounting for appropriations and allotments but are supplied for entry on the internal management reports or for analytical procedures as required.
- 3.2 The following situations may be appropriate for the use of memorandum allocations:
- to record fixed assets which are not included in the accounts of Canada;
 - to record liabilities or reserves such as provisions for declining values in inventories, depreciation, or doubtful accounts;
 - to charge depreciation to responsibility centres; and
 - to record costs charged to other appropriations or fiscal years.

4. Standing Percentage Cost Allocation

- 4.1 This is a useful technique, particularly where precise allocation of costs for activities, projects and objects is not feasible. The principle is that selected costs are identified manually or by computer as they are processed by the accounting system, and these costs are automatically allocated on the basis of predetermined percentages. Where this takes place there must be established procedures for ensuring that the standing percentages are realistic and have received management approval at the time of implementation, and that the reliability of the percentages is tested at least annually. Care should be taken to only allocate in this way those costs which cannot be specifically identified.
- 4.2 In coding economic objects, where the amounts are not significant and analysis by detailed economic object is impracticable, expenditures can be charged to one line object which is reallocated by a predetermined percentage to detailed economic objects. Food purchased for cafeterias is an example of an object which may be appropriate for allocating costs on the basis of percentages into the many component economic objects.

5. Standard Costing

- 5.1 The overall concept of standard costing is that the accounting system will measure costs both on the basis of predetermined standards and actual costs incurred. By measuring what should be, as well as what is, more useful information is provided to management. Standard costing is particularly useful for measuring high volume, repetitive operations in a labour intensive organization where a significant proportion of the costs are controllable. However, the principles can frequently be applied simply and effectively and with significant benefits in other organizations.
- 5.2 Standard costs should be computed by building up what the cost should be based on a study of the individual operations, material components, and overhead costs involved. Standard costs should be realistically established so that deviations from standard have significance; they should not be based on optimum performance under unrealistic working conditions.

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- 5.3 If certain costs of personnel or purchased goods and services are of particular importance to a responsibility centre and are also subject to significant price fluctuations, it may be beneficial to identify the effect of these price variances at the time of input to the accounting system. This can be done without difficulty by establishing separate accounts to record the standard cost and any variances. The price variance is identified on the source document; the standard price is allocated to one account and the price differential is coded to the variance account. An illustration might be a stores location, whose inventory records are being maintained on a standard cost basis. The cumulative price variances are useful information for materiel management and better financial control is achieved if the physical inventory records and the principal accounting records are both maintained on a standard cost basis because significant differences between these records can only represent physical shortages or overages, once the price variance has been eliminated.

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TECHNIQUES FOR ACCOUNTING FOR INVENTORIES

1. Introduction

- 1.1 This appendix describes alternative accounting methods to effect financial control over inventories of material and equipment where circumstances indicate the need for such control.
- 1.2 The choice of method used to exercise financial control over inventories will depend upon the benefits to be attained relative to the cost.
- 1.3 The actual form of the inventory records can vary from handwritten working papers or ledgers to sophisticated mechanical or electronic inventory control systems.

2. Recording of Inventories of Materials

2.1 In this section the following variations are considered:

- use of subsidiary and control accounting records;
- use of control accounting records only; and
- inventory accounting in the absence of formal records by periodic stocktakings.

2.2 Subsidiary and control accounting records

In this method all entries in the subsidiary system are recorded individually or in total in a control account in the principal accounting system. These entries include the costs of not only all receipts and issues, but also quantity shortages or overages identified through physical stock counts, and deletions of obsolete, damaged, or excess stocks. The subsidiary system should be regularly agreed to the control account.

2.3 Control accounting records only

For economy and simplicity, a subsidiary system may record quantities of inventory only, but in these circumstances each receipt or issue transaction should be assigned a value for entry in a control account, in the principal accounting system, and periodically the quantity balances shown on the subsidiary system should be priced and agreed in total to the control account.

2.4 Periodic stocktaking system

A system for accounting for inventories based on physical stock counts only may be suitable where it is uneconomic or very difficult to record each receipt and issue in the accounting system. In these circumstances, the amount of inventory used in a month or fiscal year may be determined by physical stock count on the basis that the opening inventories, plus purchases during the period less closing physical inventories valued at unit cost prices, represents the net cost of inventories consumed in the period. The purchases in the period should be determined directly from the departmental accounting system using line objects to obtain the necessary detail. The computed net cost of inventories consumed in the period is allocated in the accounting records on an appropriate and equitable basis depending upon requirements for financial reporting. A degree of financial control over such inventories can be obtained through analysis of variances between actual and budgeted costs to ensure that the rate of consumption of inventories and total stock levels are in line with the level of operating activity.

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3. Physical Counts

- 3.1 Whatever the accounting system, there is a need to perform physical counts to prove that there have been no serious lapses in either the physical custody or accounting controls over inventories.
- 3.2 Physical counts should be performed, summarized, and verified with inventory records by persons who are independent of the inventory custodians. Financial officers should participate directly in the planning, performance and review of physical counts to ensure independence in the determination of quantities, physical condition, and values of inventories.

4. Valuation of Inventories of Materials

4.1 Inventories of materials may be accounted for at cost by:

- establishing what direct and indirect expenses are to be included in or excluded from cost. For example, the cost of goods in a warehouse may be recorded at the price paid to the supplier or may include shipping, handling, and warehousing costs; and
- establishing how costs are to be allocated to individual items in inventory. For example, costs may be recorded on a specific, average or standard basis.

4.2 A standard costing system is recommended for most applications because it:

- provides a good basis for financial control;
- serves the needs of those responsible for the materiel management function; and
- does not require complex accounting mechanics.

In this system materiel acquisitions are recorded in the control account and subsidiary system at standard cost, with any resultant differences in the purchase price and shipping costs being recorded in a separate account. The balance in this separate account will represent accumulated price variances for each category of item, an analysis of which may disclose unrealistic standards, or favourable or unfavourable purchasing arrangements in the period. Issues from inventory to operations are also recorded at standard cost. At any point in time the total standard cost of all physical inventories on hand should be equal to the balances in the subsidiary accounting system and the total in the control account. When standard costing is used, the standards should be realistically determined. Established standards should be reassessed on a systematic basis once each year, or if appropriate, on an exception basis during the year. When a new standard is introduced, existing inventories should be revalued and the applicable adjustment should be recorded in the accounts.

5. Work in Process

- 5.1 A work in process system should be used to determine the costs of manufacturing or processing operations.
- 5.2 In such a system labour and material costs are identified in relation to individual operations or projects, and other costs are allocated on some appropriate basis. Separate control accounts are operated for each cost component. These act as clearing accounts for inventories of work-in-process; they are charged with raw materials, labour and other costs as these are entered

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into the productive process and are relieved of these costs as products are completed and transferred to finished product inventories. Separate control accounts are also maintained for raw materials and finished products. This enables accurate costs to be determined on a period-by-period basis, as well as permitting the investment in raw materials, work in process and finished goods to be controlled.

6. Inventories of Equipment

6.1 The "Guide for Materiel Management in Government" issued by Treasury Board in Circular MI-1-65 and amended by Circular No. 1968-25, sets out certain accounting principles with respect to equipment which should be adhered to by all departments:

- "While in inventory, equipment should be accounted for in the same manner as other items. Once issued for use, central records should be maintained to reflect distribution either geographically or by individual operating units."
- "To preserve the continuity of responsibility for equipment in use, operating units should maintain records of the internal distribution of equipment."

6.2 There should be adequate accounting controls over the equipment records to ensure that these records are complete and accurate. This includes maintaining a direct link with the principal departmental accounting system to ensure that all assets acquired and processed through the cash records are also included in the equipment records. For example, the total dollar values of purchases as recorded in the equipment records should be agreed to appropriate line object totals created for this purpose in the classification of accounts and shown in financial reports. This would require a minimum of extra work since computer reports which summarize the data in a useful way could easily be developed. As a minimum standard, where it is not practicable to maintain dollar values in the detailed equipment records, no cheque requisition in respect of equipment should be processed unless it bears evidence that the item has been entered in the equipment records.

6.3 It should not always be necessary to integrate equipment records fully into the departmental accounting system, but information with respect to the total cost of equipment on hand at a responsibility centre should be available on request. There are circumstances, however, where it would be useful to report information on equipment on a memorandum basis in departmental financial reporting systems. This may include a monthly or annual depreciation charge to allocate the cost of each item of equipment over its useful life and to provide an estimate of the current depreciated value of each item or of the total equipment on hand. Such depreciation charges should be equitably computed and consistently applied, for each individual item or for each class of item, based on usage statistics or on a straight time consideration.

6.4 Where it is desired to integrate equipment records with the principal accounting system, this can be done through the use of contra accounts.

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TECHNIQUES FOR ACCOUNTING CONTROL

1. Introduction

- 1.1 Techniques of accounting control cannot be documented here comprehensively and financial officers responsible for developing or maintaining accounting systems should refer to other sources on this subject. However, the following is a summary of the principal accounting control techniques available; the way in which these should be applied will vary with each system.

2. Sequence Controls

- 2.1 Numerical sequence controls are a useful method of ensuring completeness at any stage of processing:

- each transaction is identified with a sequence number at one stage of the processing and all numbers are accounted for at a later stage;
- the sequence number may be manually assigned, but where greater control is required, it may be appropriate to use prenumbered forms or to assign numbers mechanically or electronically; and
- sequence controls can be effectively verified by the use of log books, sequential filing systems or computers.

- 2.2 There is a great variety of possible situations where numerical sequence controls are appropriate. For example, prenumbered forms should be used for:

- work orders, to ensure that all work performed is ultimately billed;
- admittance documents in a hospital, to ensure that all billings are subsequently rendered in respect of all patients admitted;
- invoices, to ensure that all invoices are recorded in an accounts receivable record and that payment is ultimately received; and
- receiving slips, to ensure that all receipts of goods are recorded in both the inventory system and the accounting system.

- 2.3 In other circumstances, it may be more appropriate to assign each transaction a sequential number which, for example, could be used for:

- invoices which arrive through the mail to ensure that control is maintained on documents being circulated for managerial approval;
- amendments to accounting systems or manuals to ensure that all changes are put into effect; and
- materiel requisitions to ensure that all stores issues are recorded in both the materiel records and accounting records.

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3. Control Totals Maintained During Processing

3.1 Control totals established at one stage in processing and independently verified at a later stage are a useful method of controlling completeness and accuracy. This technique is most frequently applied to the dollar value of transactions in the system. However, its application should also be considered for other significant information:

- using the total numbers of transactions or records on the file; and
- using hash totals, which are totals created for control purposes only, for example:
 - for rates of pay;
 - for quantities or weights of materials; and
 - for accounting code numbers.

3.2 Batch Control

Most mechanical and computerized accounting systems require that similar input documents be grouped together and submitted into the system with an accompanying control total. The computer independently accumulates a total value of transactions and compares this to the total of the details submitted.

4. Repetitive Checking

4.1 To perform a repetitive check is to repeat an operation performed at an earlier stage in the system to ensure the accuracy of that operation. Repetitive checking should not be confused either with the requirement to examine evidence that an operation or control has been performed during an earlier stage in the system or with the requirements to check that a control condition, such as a control total, is being maintained at various stages in processing.

4.2 Repetitive checking is a time-consuming and costly technique and should be applied only:

- when the potential for human error is significant;
- when one error or an accumulation of minor errors could have a material effect on the accuracy of the systems;
- when there is an opportunity for fraud; and
- when more economical techniques of accounting control are not practicable.

4.3 It is generally required on a sample basis:

- on manually performed arithmetical operations on source documents;
- on requisitions for payments to public servants such as claims for travel expenses; and
- on encoding and keypunching activities where source data are converted to a form suitable for computer input.

4.4 Except in the types of circumstances described above, the use of repetitive checking should be avoided in favour of more efficient and effective methods of control. Repetitive checks on source

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documents of such information as the accounting codes used or the appropriateness of a charge should not be necessary if other controls are operating, and they will not be effective unless the individual performing the check is close to the source of the transaction and has full access to the supporting information. For example, it may be impossible for centralized accounting offices to check effectively information on source documents prepared in local accounting offices.

5. Reasonability Controls

- 5.1 A reasonability control is designed to identify transactions or information which are unreasonable and therefore may be in error. For manual operations, the personnel involved in processing will usually identify unreasonable transactions; for computer operations, specific conditions of unreasonableness must be individually tested.
- 5.2 In computer applications, reasonability checks may be applied in differing degrees of depth. In the simplest applications, editing checks generally examine the format or layout of data being input to the system to determine if it can be interpreted during processing — for example, to ensure that alphabetic information is not included in a numeric field. All transactions which pass these tests will be accepted and processed by the system. In more advanced applications, reasonability checks of the following types may make a significant contribution to the total system of accounting control:
- editing checks may anticipate what data are required and ensure that no input information has been omitted or included in error;
 - validity checks may ensure that only valid reference numbers are used — for example, valid accounting codes or valid employee numbers; and
 - limit checks may ensure that all transactions or an individual type of transaction fall within authorized limits — for example, no pay for a particular classification of an employee should exceed a fixed maximum in one week, or no petty cash reimbursement should exceed a certain amount for a particular fund.
- 5.3 There is a variety of ways in which these and other reasonability tests can be applied. Edit, validity, limit, or other reasonability checks during computer processing can cause the data to be rejected from the system so that it will not be subject to further processing, or it may generate a warning message but continue to process the data. Special control procedures should be introduced to ensure that all warning messages on print-outs receive appropriate attention, that all rejected data are properly corrected and input to the system again, and that control is not lost on the transaction during the process.
- 5.4 In normal circumstances any rejected data should be returned to the originator for correction. If the data are corrected and input again at a later stage in order to expedite processing, there should be a formal means of communication with the originator, or the supervisor of the originator, indicating the reason for the error and what correcting adjustments were made.

6. Control through Systems Documentation, Design and Organization

- 6.1 A prerequisite for an adequate system of accounting control is to have the system well documented in a manual providing clear instructions on the mechanics, procedures, controls and

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timing of the system and clear definitions of responsibilities. Forms should be well designed to minimize clerical errors or omissions, and to show evidence of work done. Adequate attention should be paid to establishing a proper segregation of duties so that one clerk or organization checks the work of another where this is warranted, either by the importance of the accounting control being verified or by the potential for fraud.

7. Statistical Sampling

- 7.1 An independent check of accounting transactions on the basis of a statistical sample is a desirable and acceptable accounting control technique where the circumstances are appropriate and where it is applied in accordance with established mathematical principles.
- 7.2 With the use of published statistical tables, sampling techniques are not complicated to apply once certain analysis and assumptions have been made. Statistical sampling is a tool which can be used to great advantage to ensure that there are no significant lapses in the system of internal control and to evaluate the significance of those lapses which are identified.
- 7.3 Statistical sampling ensures that the basis on which items are selected for checking is objective, and enables control to be maintained within a mathematically determined degree of assurance. If predetermined acceptable limits of accuracy are exceeded at any point in time, there is a positive unequivocal indication that the condition is unacceptable and that corrective managerial action is required. At that point, it will not be possible to rationalize lapses in control as being tolerable exceptions. In all cases, the primary assumptions as to confidence levels and acceptable error rates should be established by senior financial officers in consultation with operating managers, and these rates and the results of the statistical tests should be reviewed by them regularly.

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CHAPTER IX — FINANCIAL CONTROL OF EXPENDITURES

DIRECTIVES

- *Financial signing authorities shall be delegated and communicated by ministers and deputy heads in a manner and form which provide that controls on the disbursement of public money are adequately enforced through an appropriate division of responsibilities.*
- *Spending authority and payment authority shall not be exercised by the same person for a particular payment. This is to ensure that persons having payment authority are themselves subject to an independent check in respect of their own expenditures.*
- *Payment authority shall be exercised only when any certificate required under Section 27 of the Financial Administration Act has been provided by a person delegated appropriate spending authority.*
- *No person shall be permitted to exercise the authorities given to a position on an acting basis unless properly designated in writing by an officer to whom the incumbent of the position reports.*
- *No person shall exercise either payment authority or spending authority with respect to a payment from which he can personally benefit.*

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- *Spending authority should be granted to responsibility centre managers in respect of their own budgets. Delegation of spending authority to officers in relation to their budgetary responsibility is to ensure that they have adequate authority and are fully accountable. Where other officers are given spending authority, such as that delegated to purchasing agents to place contracts and to personnel officers to hire staff, such authority is exercised on behalf of the responsibility centre managers who have budgetary responsibility. Spending authority may also be delegated to designated subordinates of responsibility centre managers as well as, where appropriate, to staff within financial offices who are independent of officers exercising payment authority.*
- *Payment authority should be granted primarily to financial officers of the department to provide an independent check on the manner in which other officers exercise spending authority. Payment authority may also be delegated to personnel officers in respect to the payment of salaries, wages and allowances, and to other independent departmental officers in respect to transfer payments requisitioned as an operational activity.*

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- *Authority to give commitment certificates should be delegated either to managers with spending authority or to officers delegated payment authority, or to their designated subordinates, depending upon where it best meets the operational requirements of the department to maintain records of undischarged commitments*
- *Authorities should be delegated to organizational positions and not to individuals. Position means an aggregation of duties and responsibilities which are discharged within an organizational structure by a designated person*
- *Payment authority should be delegated to positions classified at or above the Financial Administrator 2 (FI-2) level or its equivalent, except where no officer of this level is available and payments must be requisitioned by a local responsibility centre. Payment authority should not be delegated to positions where the duties consist primarily of, or require close involvement in, the verification of accounts before payment or the preparation of cheque requisitions. These two requirements are to ensure that officers with payment authority are sufficiently senior to have the experience and judgement necessary for exercising this important control responsibility*
- *The delegation of financial signing authorities should be authorized and communicated through a section of the department's financial manual signed by both the appropriate minister and the deputy head. Properly authenticated specimen signature cards should be used to identify the person who is the incumbent of each position to which a financial signing authority has been delegated. The section of the financial manual and the specimen signature cards should be distributed to all who have to recognize and honour a signing authority in a manner which ensures that they have access to complete and authoritative information. Deputy heads should arrange for a review of all delegated signing authorities and specimen signature cards not less frequently than once a year.*

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A. DELEGATION OF FINANCIAL AUTHORITIES

Under the Financial Administration Act and regulations made under the Act, such as the Government Contracts Regulations, certain responsibilities for the control and spending of public money are placed on the minister responsible for a department or agency, while other responsibilities are placed on the deputy head. No minister or deputy head could possibly carry out personally all of these responsibilities along with all the other responsibilities assigned to him by legislation and regulation. It is necessary for them to authorize responsible officials to exercise these responsibilities on their behalf.

Through written delegation of financial signing authorities the ministers and deputy ministers delegate responsibilities bestowed upon them by legislation or executive regulations to appropriate managers at the departmental level where responsibility can be most effectively exercised and where accountability for results can be established.

1. Types of Financial Authorities

The sections of the Act which are directly pertinent to this description of the types of financial authorities are as follows:

- 25(1) — “No contract or other arrangement providing for the payment of money by Her Majesty shall be entered into or have any force or effect unless the deputy head or other person charged with the administration of a service for which there is an appropriation by Parliament or an item included in estimates then before the House of Commons to which such payment will be charged certifies that there is a sufficient unencumbered balance available out of such appropriation or item to discharge any commitments under such contract or other arrangement that would, under the provisions thereof, come in course of payment during the fiscal year in which the contract or other arrangement was entered into.”
- 26(1) — “No charge shall be made against an appropriation except upon the requisition of the appropriate Minister of the department for which the appropriation was made, or by a person authorized by him in writing.
- (2) — Every requisition for a payment out of the Consolidated Revenue Fund shall be in such form, accompanied by such documents and certified in such manner as the Treasury Board may prescribe by regulation.
- (3) — No requisition shall be made pursuant to subsection (1) for a payment that
 - (a) would not be a lawful charge against the appropriation;
 - (b) would result in an expenditure in excess of the appropriation; or
 - (c) would reduce the balance in the appropriation so that it would not be sufficient to meet the commitments charged against it.”
- 27 — “No payment shall be made for the performance of work, the supply of goods or the rendering of services, whether under contract or not, in connection with any part of the public service of Canada, unless, in addition to any other voucher or certificate that is required, the deputy of the appropriate Minister, or another person authorized by such Minister certifies

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- (a) that the work has been performed, the goods supplied or the service rendered, as the case may be, and that the price charged is according to contract, or if not specified by contract, is reasonable; or
- (b) where a payment is to be made before the completion of the work, delivery of the goods or rendering of the service, as the case may be, that the payment is in accordance with the contract."

In addition, authorities are required to be delegated under the Government Contract Regulations, the Travel Directive and other executive regulations.

For ease in understanding and to facilitate their use, certain terms are used in this Guide to refer to these authorities.

a. Spending authority

Spending authority is the authority granted by the minister and deputy head in delegation of those authorities conferred upon them by the Financial Administration Act, the Government Contract Regulations, the Travel Directive, the Removal Expense Regulations and similar regulations made under authority of the Act. Such delegation is made to responsibility centre managers and their designated subordinates enabling them to incur expenditures against their own budgets, and to confirm satisfactory contract performance and price under Section 27 of the Act as a prerequisite to the requisitioning of payments. Spending authority may also be delegated to officers such as purchasing agents and personnel officers to place contracts and purchase orders and to hire staff when so authorized by the requisition of the appropriate departmental manager.

The objective of establishing spending authority in accordance with this definition is to give operational managers primary responsibility for authorizing expenditures charged to their budgets. The initial stage of authorizing expenditures occurs at the point where decisions are made to make commitments which will result in the eventual expenditure of funds, such as the decision to hire staff, to requisition supplies or services, to authorize travel or removal, or to enter into some other form of arrangement for program purposes. The second stage in authorizing expenditures takes place when the manager or his delegate confirms that work has been performed as required, services and supplies have been satisfactorily provided, travel and removal have been successfully carried out, contract performance has been in accordance with contract arrangements and conditions, prices are in accordance with contract, or if not specified by contract, are reasonable and that payment should accordingly be made.

Where spending authority is granted to officers, other than in respect to their own budgets, it should be recognized that these officers are exercising such authority on behalf of, or as agent for, the manager having budgetary responsibility.

In some circumstances, authority to certify contract performance under Section 27 of the Act may also be delegated to financial officers provided that adequate precautions are taken to ensure the independence of financial officers exercising payment authority, as defined below. Such delegation would be appropriate where invoices are received centrally and where it is feasible to accumulate centrally commitment, receiving, inspection, and all other documentation necessary to certify performance and prices without further reference to the staff of the responsibility centre manager.

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It should also be recognized that a responsibility centre manager's superiors have authority not only to spend against their own budgets, but also against the budgets of their subordinates. This type of authority should be exercised rarely, and normally only after full consultation has taken place. However, reference is made to this factor to explain the reasons for the broader authority given to senior officers in Appendix IX-1 at the end of this chapter.

b. Payment authority

Payment authority is the authority delegated by the minister under Section 26 of the Act to financial officers of the department to requisition payments and their charge to appropriations after reviewing the legality of payments prior to their being requisitioned and the exercising of all appropriate financial controls. It includes ensuring adherence to the requirements of the Account Verification and Payment Requisition Regulations. Payment authority may also be delegated to personnel officers in respect to the payment of salaries, wages and allowances, and to other independent departmental officers in respect to transfer payments requisitioned as an operational activity, such as old age pensions.

The objective of establishing payment authority in accordance with this definition is to ensure that all the statutory and regulatory requirements for the control of funds and the requisitioning of payments are met. Because of the need for independent control, payment authority under Section 26 should be vested, except for certain well defined exceptions, with financial officers. For this purpose a financial officer is defined as a person who falls under the functional direction of those responsible for financial administration in the department.

c. Authority to give commitment certificates

Authority to give commitment certificates is the authority delegated by the deputy head to appropriate officers to give, before a commitment is entered into, the commitment certificate required under Section 25(1) of the Act that there is a sufficient unencumbered balance available out of the relevant appropriation or item included in the Estimates to discharge such commitment.

This authority which is basically a sub-division of spending authority may be delegated to the same officers as have spending authority or to some central organization as best suits the departmental requirements. Although commitment documentation will originate with the officer having spending authority, the recording of commitments and the issuing of certificates under Section 25 may be delegated to central staff if the records can be more effectively and economically kept at a central location.

Regardless of where the record of outstanding commitments is maintained, officers delegated payment authority, as defined above, must rely on those records in order to meet their responsibility under Section 26(3)(c) of the Act to ensure that no balance of an appropriation will be reduced so that it will not be sufficient to meet all the commitments charged against it. Where commitments are recorded centrally, it would be normal to assign the responsibility to the same organizational units where payment authority under Section 26 is assigned. Where commitment recording is decentralized to each responsibility centre, the total of undischarged commitments at the end of each month must be reported to officers exercising authority under Section 26, and more regular reporting may be required towards the year-end if the free balances in the appropriations are reduced to levels where day-to-day control must be exercised. Under both alternatives, those exercising authority under Section 26 must satisfy themselves that the design and application of the commitment recording system is adequate for their purposes.

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2. Principles for Delegating Financial Signing Authorities

Delegation of signing authority to officers of a department or agency by the minister and the deputy head is primarily intended to facilitate procedures for the spending of funds available for departmental programs. Such signing authorities, however, also carry with them the responsibility to ensure that all the related managerial and financial controls are effectively enforced and that all the normal requirements of probity and prudence are observed. It is important, therefore, that the delegation of financial signing authorities be carried out by the minister and the deputy head with the object of achieving the most effective delegation of authority commensurate with the retention of the control over spending at responsible levels. For these purposes a number of principles should be observed.

a. Separation of spending and payment authorities

Spending authority and payment authority must not be exercised by the same officer in respect to a particular payment. This principle recognizes the need for a division of duties in order to maintain financial probity. Officers delegated signing authority should be granted either spending authority or payment authority, but not both. However, it is recognized that in small establishments, particularly in isolated locations, as well as in financial divisions this may not always be possible, especially when assigning responsibilities to one officer as the alternate of another. Under such circumstances, it may be necessary to delegate to a particular officer both types of signing authority, but wherever this is done this officer must not exercise both types of authority on the same payment.

b. Limit on exercise of payment authority

No payment authority can be exercised without the supporting signature of the appropriate officer having spending authority confirming that the work has been performed, goods supplied or services rendered, as the case may be, in respect of any payment where a certificate must be given to that effect under Section 27 of the Financial Administration Act. This requirement recognizes the principle that only the manager controlling the budget of a responsibility centre or his designated subordinates may spend the money included in that budget. At the same time it recognizes the fact that the financial officer exercising authority under Section 26 often may need to have assurance from the responsible officer that the payment will be a "lawful charge against the appropriation" as required under Section 26(3)(a) before he can requisition payments.

c. Delegation of authority to organizational positions

Delegated authority can not be redelegated. Where a person is delegated authority by the minister or deputy head, he has no right to redelegate such authority to another person. This is in accordance with the maxim of administrative law "delegatus non potest delegare". Sections 26 and 27 of the Financial Administration Act expressly state that where the minister delegates financial responsibilities he must sign a suitable authorization to this effect. By this, Parliament has specifically limited the right to delegate to the minister alone. The same principle must be recognized throughout the whole system of financial signing authorities, even if not specifically required by other sections of the Act or related regulations.

Delegation should be to organizational positions and not to individuals. If signing authorities are delegated to positions rather than to individuals, amendments to the authorities will only be required for changes in organizational structures and responsibility rather than for the more frequent changes in personnel.

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Delegation should be to general categories of positions, such as branch and regional directors, to the maximum extent feasible, and not to each individual position. By following this principle a number of advantages accrue. The most immediate advantages arise from reducing the number and size of the delegation instruments, resulting in a greater ease of handling, reading and comprehension. In addition, standardization aids administration of the authorities system, not only within the department but within the Department of Supply and Services where departmental signing authorities must also be honoured.

There must be a formal designation in writing whenever signing authority is granted to persons performing duties on a temporary basis. Exercise of signing authorities on an acting basis is only compatible with the exercise on the same basis of the total responsibilities of the position. A subordinate substituting for the incumbent of a position, if not appointed to fill the position on a temporary basis, may not assume the signing authority of the position.

Officers delegated authority in the absence of the incumbent of the position should be at a parallel or higher position in the organization. The immediate subordinate of a position should not be automatically designated as the alternate to his supervisor. Maintenance of financial probity through fixing signing authorities at a desirable level will best be achieved by maintaining that level when nominating alternates. Also, nomination of a person at a higher level in the organization as an alternate provides a useful means for that person to acquaint himself with the performance of related duties at subordinate levels in the organization.

d. Special limits on authorities

Authorities delegated below the most senior positions should be restricted to geographical locations, organizational units, operational activities and by dollar amounts commensurate with the duties and responsibilities of the positions. Where required, further local restrictions may be placed on any authority granted by the minister. As authorities are granted to successively subordinate levels within the department, the duties of the positions concerned will carry correspondingly restricted responsibilities in relation to the geographical area covered, organizational units involved and the activity and functional operations entailed. Consequently the signing authorities should be qualified by restrictions which limit each authority to appropriate parameters for the position. In addition, reduced authority in the form of maximum dollar amounts to be applicable to each item of expenditure or each payment to be requisitioned should be included. Since authorities are granted to general categories of positions on which only general restrictions will be placed by the minister and deputy head, situations will arise in such cases as smaller-than-normal establishments, partly trained employees, special projects and tight budgets where additional restrictions or reduced dollar limits below the general maximum amounts will be advisable.

Payment authority should be delegated to positions classified at or above the FI-2 or equivalent level unless no officer of this level is available and payments must be requisitioned locally. Payment authority should also not be granted to positions where the duties consist primarily of, or involve close engagement in, the verification of accounts before payment and the preparation of cheque requisitions. The delegation of the minister's responsibility to requisition payments should not be carried to too low a level of classification in the department. In addition, Section 4 of the Account Verification and Payment Requisition Regulations requires every deputy head to divide the responsibilities for functions related to the procurement, receiving and certification of goods and services, as well as those related to account verification and cheque requisition preparation and signature thereof, to the maximum extent practicable. The tendency to concentrate payment

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authority in those areas of financial administration divisions dealing with account verification and in which classifications are not at a high level should be avoided. Consideration should be given to all financial officers available in a location when recommending positions to the minister for the delegation of payment authority; not just to those involved directly in the payment process.

For personal payments, such as those for travel and removal expenses, financial authorities may not be exercised by the claimant. This is a universally accepted requirement of financial probity where a conflict of interest may be present.

3. Granting and Communicating Authorities

The following advantages accrue from delegating and communicating authorities through the medium of a departmental financial administration manual:

- it provides a convenient means of reproducing delegation instruments bearing the authorized signatures of the minister and the deputy head;
- it ensures that all who require to do so may readily confirm that ministerial authority has been given to a particular position, for stated purposes and subject to stated limitations;
- the manual's index provides a ready means of tracing authorities, something which is not always available when they are issued on a separate basis;
- the distribution system for the manual will assure that copies of the delegation instruments will be readily available to all who need to refer to them;
- the distribution system for the manual normally has built-in safeguards in relation to amendments so that persons examining the manual can with confidence be assured that they are observing complete and up-to-date authorities; and
- the revision of all authorities delegated will be facilitated, particularly when there has been a change in the minister or the deputy head, at which time the renewal of delegated authorities is a matter of first priority.

Wherever possible, a delegation instrument in the form of a chart should be used since it is easily read and the relationship of the various delegated authorities can be assessed at a glance. An illustration of a chart suitable for the delegation of signing authorities is included in Appendix IX-1.

4. Notifying the Identity of Incumbents of Positions Delegated Signing Authority

Specimen signature cards should be used to identify the incumbent of a position to which signing authority has been delegated. One card for each position involved should be forwarded to every location within the department where signatures need to be recognized and honoured. Also, one card for each position delegated payment authority must be forwarded to every relevant paying office of the Department of Supply and Services. Specimen signature cards should be printed to include:

- name of department/branch/region/division;
- position title;
- the type and coverage of the authority delegated;
- general restrictions on the authority;
- local restrictions on the authority;

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- name of incumbent and date of appointment;
- specimen signature of incumbent and date given; and
- authenticating signature of responsible officer and date.

An illustration of a specimen signature card is included in Appendix IX-2.

To be fully effective, a system of specimen signature cards should meet certain criteria:

- the position in the department occupied by the individual whose signature is covered by a card should be precisely stated so that it can be referenced to the relevant delegation instrument for confirmation of delegated authority;
- all restrictions on the authority should appear on the card — geographical, organizational, activity, functional, dollar amount, alternate status, local restrictions, etc. — to eliminate the need to refer to the actual delegation instruments on a day-to-day basis;
- the signature of the incumbent of a position should be authenticated by the signature of a responsible officer such as a branch or regional director;
- cards should be readily available to all staff who need to recognize signatures as part of their duties;
- adequate systems to control specimen signature cards should be established to ensure that cards are issued as soon as a new incumbent takes up his duties, are provided to all locations where the signatures must be recognized and honoured, are withdrawn and re-issued when departmental reorganizations or policy changes alter any of the pertinent data on the cards, and are withdrawn as soon as the incumbent gives up the duties of his position; and
- all cheque requisitions, journal vouchers, etc. received by departmental units or Services offices not signed by an officer for whom an authenticated specimen signature card is held should be returned without action being taken.

5. Cyclical Review of Authorities

Deputy heads should arrange for an annual review of all delegated signing authorities to determine their continuing validity. They should also arrange for every specimen signature card in use in departments and in the relevant offices of the Department of Supply and Services to be reviewed at least annually.

Probity in the disbursement of public funds requires that commitments and payments be made solely by duly authorized personnel. All persons who are required to act solely on the signed request of someone delegated signing authority, must ensure that before a signature is honoured it is recognized and determined to be valid for the purpose for which it is given. Persons having custody of specimen signature cards should promptly attend to any card which appears to have lost its validity. In turn, ministers and deputy heads who have delegated their authority to subordinates should have periodic checks made to ensure that delegated authority is not being abused or wrongly assumed.

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B. ACCOUNT VERIFICATION AND PAYMENT REQUISITIONING

The expenditure process within government must be conducted with a high degree of probity at all times. This is most important when claims for payments are approved and payments are requisitioned. When paying accounts, it is necessary to carry out similar control procedures to those used in the private sector, but in government certain other procedures and controls are required to be applied under the terms of the Financial Administration Act. Because of the need to maintain high standards in this area, Treasury Board issued the Account Verification and Payment Requisition Regulations originally in 1969 immediately following the transfer to departments of most of the financial control responsibilities previously exercised by the Comptroller of the Treasury.

1. Purposes of Account Verification

a. Verification by officers with spending authority

Verification of accounts before payment is a normal financial practice carried out to ensure that amounts are properly payable. As a minimum this involves checking to ensure that:

- supporting evidence exists to verify that goods or services have actually been supplied;
- goods or services have been supplied in the quantity and to the specifications laid down in the order or contract;
- prices claimed are in accordance with the order or contract, or are standard charges, or if there is no agreed price, are reasonable;
- goods or services supplied have been ordered by a responsible person in the organization;
- the computation of the charges is arithmetically correct;
- discounts due have been deducted;
- inadmissible extras have not been added;
- the account, or part of it, has not been paid previously; and
- the relevant accounting entries for the payment are accurately initiated.

The first three items are called for specifically in Section 27 of the Act which also requires that advance payments, such as payments due on signing a contract and those due in accordance with progress made on a contract, are made only when they are in accordance with the terms of a contract. Normally, these verification tasks will be carried out by an officer who exercises spending authority under Section 27 or his staff because it is at this level that responsibility rests and information for effective verification is available.

b. Verification by officers with payment authority

Section 26(3)(a) of the Act requires that no payment shall be requisitioned by a department that would not be a lawful charge against the appropriation. This entails verifying that the payment is for the purposes of the appropriation as voted by Parliament, which includes verification of compliance with the enabling legislation of the program concerned. It is also necessary to verify that the payment is in accordance with any other relative statute, order-in-council, executive regulation or order, including any specific Treasury Board minute. Since the payment requisitioning responsibility rests with independent officers, there is danger of a second review that duplicates all the checks that are

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applied at the primary level of responsibility. Officers exercising payment authority under Section 26 should do so by reviewing procedures exercised under Section 27 and should carry out adequate sampling tests to assess the quality of the review at the primary level of responsibility. Where sampling procedures indicate an unsatisfactory situation, the documentation should normally be returned or else a complete review should be carried out and errors reported to the head of the responsibility centre for his corrective action. The primary responsibility of the officer signing under Section 27 should never be obscured by introducing duplicatory verification processes. A recommendation to withdraw authority delegated under Section 27 is preferred to the alternative of duplicatory checking which leaves no one truly responsible.

As noted previously, certain financial controls, not usually found outside of government, are enforced at the account verification stage of the expenditure process. These controls are used to meet the requirements of Parliament and Treasury Board for control of appropriations and allotments and consist of both cash and commitment control procedures. They are fully described in Chapter VI of this Guide and are included in the Account Verification and Payment Requisition Regulations. These cash and commitment controls must be exercised within the account verification process with primary responsibility resting with officers given payment authority. They require verification of the availability of uncommitted funds before proceeding to the next stage of the expenditure process, the requisitioning of the payment.

2. Responsibility for Account Verification

Responsibility for the system of account verification and the enforcement of the related financial controls rests with those officers delegated payment authority under Section 26, but primary responsibility for verification of individual accounts rests with those officers who have been given spending authority.

Those with spending authority have responsibility to raise and obtain all supporting documentation necessary for the account verification process, including contracts, leases, purchase orders, program arrangements, etc. These documents are essential for each payment made to show the extent of commitment involved, agreed prices for the services and supplies, precise specifications of requirements, agreed contract conditions and complete expenditure coding to enable all the necessary fiscal and departmental coding to be carried out. In addition, officers with delegated spending authority are required to indicate their approval of each requisition for services or supplies and later will be required to confirm contract performance, thereby indicating that payment should be made.

The responsibility of the financial officers is to ensure that all the requirements of the Account Verification and Payment Requisition Regulations are adhered to by the department. Section 7 of these Regulations requires the officer signing the certificate on a cheque requisition to ensure that all the verification procedures have been carried out, and places on him the responsibility for ensuring the accuracy of all the information appearing on a cheque requisition.

3. Basic Procedures for Account Verification

The process of account verification should commence at the earliest possible moment. The procurement process for services and supplies may be relatively short and simple as, for example, when requisitioning standard supplies from the Canadian Government Supply Service, or it may be protracted and complex as, for example, when entering into a contract for the development and manufacture of a new item. In the former case, most of the account verification process may have

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been completed before the documentation requisitioning a payment comes to the attention of financial officers exercising payment authority. In the latter case, matters such as the legality of the charge to the appropriation and Treasury Board approval for the placing of the contract should be independently tested and confirmed by financial officers exercising authority under Section 26 at the earliest possible moment, rather than waiting until a claim for payment has been submitted. Action, if taken promptly, may eliminate subsequent delays and consequent embarrassment.

Part I of the Account Verification and Payment Requisition Regulations prescribes the steps and checks which must be taken by departments to establish and maintain probity in their payment functions and to meet the various statutory requirements. A first requirement is for each deputy head to establish the maximum division of responsibilities throughout the entire chain of procurement of goods and services, confirmation of contract performance, account verification, cheque requisition preparation and cheque requisition signature. The division of duties is recognized as the principal and most effective means of preventing, or at least diminishing, the possibility of fraud or error by employees. A second requirement identifies minimum procedures which should be established by deputy heads for the verification of accounts before payment.

4. Assigned Crown Debts and Debts Subject to Powers of Attorney

Also included in the verification procedures are those relating to payments where a Crown debt has been assigned or a power of attorney on a debt is in force. Like the financial controls mentioned previously, the procedures relating to these payments are incorporated into the verification process because this is the only point where they can be enforced. The Financial Administration Act permits a Crown debt due or becoming due under a contract to be assigned by the creditor to a third party, and permits further classes of Crown debts to be prescribed by order-in-council for recognition as assignable. In addition to this statutory recognition of the assignment of Crown debts, it is also Treasury Board policy that powers of attorney given on certain types of debts be recognized.

The Assignment of Crown Debt Regulations which are made by the Governor in Council, cover the documentation to be produced and procedure to be followed by an assignee in order to obtain recognition of an assignment by the Receiver General. These regulations also recognize surpluses arising under the Veterans Land Act and compensation payable under the Expropriation Act as being further classes of Crown debts which may be assigned.

The Assigned Debt and Power of Attorney Payment Regulations, which are made by Treasury Board, cover the documentation to be used and the procedures to be followed by departments in order that the statutory responsibility of the Receiver General to recognize assignments and to make payments to assignees may be met, together also with the need to make payments to attorneys. Once the assignment of a Crown debt has been acknowledged by the Receiver General, it is important that all future payments against the debt be made to the assignee. If a payment is made to someone other than the acknowledged assignee, the Crown may remain in the position of being legally liable to the assignee for the payment and responsible for the recovery of the unauthorized payment. The Regulations recognize legal officers designated by the Receiver General as the sole authority for exercising any discretion as to whether a particular assignment or power of attorney will be recognized by the Crown.

5. Cost Reimbursable Contracts and Arrangements

When departments are involved in contracts or arrangements which require payments to reimburse a payee for costs which he has incurred, or for a proportion of such costs, it is essential that

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departments establish procedures to ensure that payments are made only in relation to agreed costs actually incurred. This usually involves an audit of the payee's accounts. The contract conditions or the terms of the arrangement should provide that claims be submitted by the payee in a prescribed form which will enable all departmental requirements to be met, including the control of expenditures and the projection of expenditure trends.

6. Payment Requisitioning

After an account has been verified for payment the department may requisition the payment. Section 26 of the Financial Administration Act requires that every payment be requisitioned by the appropriate minister or by a person authorized by him in writing to make such requisitions, with Treasury Board prescribing the form of the requisition and the certification to be included therein. Under this section of the Act the requisition which may be for either a cheque or a central accounting journal voucher is designed to do two things:

- to requisition the payment out of the Consolidated Revenue Fund; and
- to charge the payment against the relevant appropriation.

There are some exceptional types of payments, made to persons outside of government, for which payment instruments other than Receiver General cheques are used. In some instances these have been authorized by specific legislation, an example being the warrants drawn by the Unemployment Insurance Commission on the Receiver General for payments of unemployment insurance benefits from the Consolidated Revenue Fund. In other instances payments are made through departmental bank accounts which are used where prompt payments must be made, such as the wages of casual workers, in locations which cannot be served by the nearest Services office within the governing time restraints. These bank accounts are advances from the Consolidated Revenue Fund, and actually constitute petty cash which, for purposes of security and convenience of making payments is held in a bank account. Although initial payment to the creditor is made by a cheque drawn by a departmental officer on the departmental bank account, the actual payment from the Consolidated Revenue Fund and charging of the relevant appropriation is made at the time the Receiver General cheque is drawn to reimburse the departmental bank account for the payments made from it or at the time an accounting for the advance is made.

The Cheque Issue Regulations made by Treasury Board cover the issue of Receiver General cheques and the operation of departmental bank accounts. The requirements for the issue of replacement or duplicate cheques, where the original cheques have not been delivered or have become lost, destroyed or stolen, are set out in Part III of the Regulations. A copy of the regulations is included in Part I of this Guide.

7. Certification of Requisitions

Requisitions for payments by cheque or journal voucher must all bear the same statutory certificates, and these certificates must be signed by an officer authorized by the Minister to requisition payments.

The certificates to be given are prescribed by Treasury Board in the Account Verification and Payment Requisition Regulations. Different certificates are used depending on whether single or recurring payments, as in the case of Old Age Pensions, are involved.

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The more commonly used of the two certificates is that used for single payments which reads:

“Requisitioned for payment pursuant to Section 26 of the Financial Administration Act and certified in accordance with subsection 7(1) of the Account Verification and Payment Requisition Regulations.”

The other certificate is similar but calls for recurring payments to be made until advised otherwise. Although the wording of these certificates is abbreviated, the significance of their coverage is wide. They certify that all of the requirements of Section 26 have already been met, or will be met by the payment(s).

The scope of the signing officer's responsibility is considerably widened by the inclusion of certification pursuant to subsection 7(1) of the Account Verification and Payment Requisition Regulations, which states:

7(1) — “Every payment requisition shall be signed by the appropriate Minister or by a person authorized by him in writing and such signature constitutes a certificate that all the information contained in the payment requisition as required by these Regulations is accurate and that all verification procedures required by section 5 have been carried out.”

Thus the signing officer is responsible for ensuring that all the general requirements of financial probity as well as statutory requirements have been met.

The requirements of the certificate under Section 27 vary from department to department and from program to program, and it is the responsibility of each deputy head to recommend to his minister the precise form and wording of the certificate or certificates to be given within the department, and the circumstances under which each will be signed by persons granted spending authority for this purpose.

The certificate under Section 27 is required for the vast majority of requisitions, but because it relates to receipt of goods, work performance and prices, it is not required for payments such as grants.

Section 27 certificates may or may not appear on payment requisitions depending on departmental requirements. Such a requirement would not be administratively efficient where cheque requisitions have to be raised in isolated responsibility centres and the certification of some other document, such as an invoice or receiving report, might be preferred. Additionally, a central payment may entail the consolidation of many payments which receive certification under Section 27 in different responsibility centres. On the other hand, some deputy heads may find that the interests of their departments will best be served by including the certificate on the cheque requisition itself. Where the Section 27 certificate is included on cheque requisitions it must be recognized that this is done solely for departmental purposes, and that there is no responsibility resting on the Receiver General's staff to carry out any check of signatures or in any other way to recognize the certificate. In order to assist departments which may wish to include a certificate under Section 27 on their forms the following certificate would be appropriate:

“Certified pursuant to Section 27 of the Financial Administration Act.”

This certificate will be available on standard forms issued by the Department of Supply and Services such as the cheque requisition form and the central accounting journal voucher.

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8. Form of Cheque Requisition

While the form of the central accounting journal voucher is standard, the form of the requisition for a Receiver General cheque varies according to circumstances. Section 26(2) of the Act enables Treasury Board to prescribe both the form of the requisition and any accompanying documentation to be provided. Part II of the Account Verification and Payment Requisition Regulations covers the requirements to be observed for departments to agree with the Receiver General the actual form, or different forms of requisitions they will use to obtain Receiver General cheque issue. The Deputy Receiver General has designated the Payments Services Branch as the responsible branch of the Department of Supply and Services to agree with departments the form of cheque requisitions they wish to use.

The Regulations recognize three different basic forms for cheque requisitions:

- a separate cheque requisition;
- a cheque requisition incorporated into a departmental operating document; or
- a cheque requisition based on a document claiming or authorizing a payment, with an attached “coding slip”.

Schedule II to the Regulations prescribes all the information required on the requisition.

Wherever possible, departments deciding to use a separate cheque requisition should use form DSS 1273, but if they have some operational or systems requirement that makes the form unsuitable they are entitled to reach an agreement with the Receiver General on a cheque requisition suitable for their own use. Where a separate cheque requisition is in use, the Department of Supply and Services must be provided with a copy of each requisition raised, or some other document, to be used as a payment advice for forwarding with the cheque, unless arrangements have been made to print details of the payment on the stub of the cheque.

Where departments making a large volume of payments of an operational nature wish to incorporate the cheque requisition into a departmental document, the design of the form must ensure that all of the information required for cheque requisition purposes is readily and positively identified with the payment. Wherever it is possible to do so, the cheque requisition should constitute a separate section of the form.

In those instances where a department decides to use a document authorizing or claiming a payment, such as an invoice, as the base for a cheque requisition, it may use either the original document or a copy of the document for this purpose. Where this is done it must be borne in mind that once the document has been passed to the Receiver General as a requisition it cannot be returned to the department. Where such documents form the basis for a cheque requisition the requisition is completed by attaching to it a complementary information sheet or “coding slip” designed to carry all information and certificates required on a cheque requisition which do not appear on the basic document.

The accounting controls, such as batch and sequence controls discussed in Chapter VIII, are an integral part of a financial control system. These should be applied to ensure that authority for requisitions is maintained once they are passed for payment.

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ILLUSTRATION OF A CHART FOR
COMMUNICATING DELEGATED SIGNING AUTHORITIES

1. A delegation document may take one of several forms. Exhibit A on page 9.18 is a delegation document in chart form. This form provides the most concise and effective means of displaying and disseminating the necessary information.
2. Regardless of its form, a delegation document should permit the following items to be recorded for each authority granted:
 - the organizational position to which the authority is granted;
 - the organizational or program area covered by the authority;
 - the type of authority granted;
 - the maximum dollar limitation on the authority;
 - any specific exceptional signing authority which needs to be exercised to meet restrictive conditions or administrative requirements in local offices; and
 - the identity of senior officials who may impose more restrictive local dollar limitations on their subordinates at their own discretion.
3. The type of authority should be clearly delineated as:
 - spending authority;
 - authority to give commitment certificates; or
 - payment authority.

EXHIBIT A

FINANCIAL SIGNING AUTHORITIES CHART

Every officer of the department appointed to a position listed in Column 1, including any officer appointed officially on an acting basis, is hereby granted financial signing authority for every item in Column 2, subject to the departmental manual and subject to the restrictions appearing in Notes 1 thru 40 appearing hereon, in respect of the position of the department shown in Column 2 opposite such position, for spending authority, authority to give commitment certificates or payment authority for such functions covered by Columns 3 thru 35 in those instances where a maximum dollar limitation or full authority is indicated in any one or more of those columns.

NOTES

1. The symbols appearing in columns 3 thru 35 indicate the maximum dollar amount of limitations imposed on a going authority or F. For authority with a budgetary limits and subject to Note 2, b1M \$0005, i.e. 25M \$25,000

2. Every maximum dollar limitation shown is subject to lower limitations imposed in specific circumstances by Executive Order or on the instructions of the Ministry.

3. All maximum limitations indicated are general limitations, and lower limitations may be imposed on a local basis, where desirable, at the discretion of branch and regional directors.

4. At district offices District Directors will exercise payment authority, apart from that in regard to transfer payments, only in the absence of the Financial and Administrative Officer or Personnel Officer, as appropriate, and the Financial and Administrative Officer will exercise spending authority only in the absence of the District Director.

NOTE TO THE READER

This sample chart is compiled solely to demonstrate basic principles in granting and communicating signing authorities, and is not intended to be indicative of all the functions likely to require coverage within any particular department or how that department should grant and restrict such authorities.

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ILLUSTRATION OF A SPECIMEN SIGNATURE CARD

1. Exhibit A on page 9.20 illustrates the format for a specimen signature card.
2. Cards should be of a standard 5" x 3" size to facilitate filing by the Department of Supply and Services of cards from all departments and agencies.
3. All the following information should be entered on the card in respect of the individual to be identified:
 - title of position and location;
 - name of incumbent;
 - date appointed as signing officer; and
 - type and details of authority granted.
4. The card should be signed by the incumbent and should be certified by an authorized authenticating officer. The authentication should be given by a responsible superior such as a branch or regional director.
5. Where detail relevant to the authority and restrictions placed on it is so lengthy that it cannot be fully accommodated on the face of the card, the balance of the information should be shown on the reverse of the card.

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EXHIBIT A

FORMAT FOR SPECIMEN SIGNATURE CARD

DEPARTMENT OF		TITLE OF POSITION AND LOCATION	
<i>SPECIMEN SIGNATURE CARD</i>			
NAME OF INCUMBENT		TYPE OF AUTHORITY AND GENERAL AND LOCAL RESTRICTIONS	
DATE APPOINTED			
SPECIMEN SIGNATURE			
SIGNATURE AUTHENTICATED			
POSITION	DATE		

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CHAPTER X — ACCOUNTING AND CONTROL OF REVENUE AND ACCOUNTS RECEIVABLE

DIRECTIVES

- *Adequate controls, including independently maintained control accounts, shall be incorporated into the relevant operational and financial systems to ensure that:*
 - *accounts receivable claims are issued wherever cash is not collected prior to the provision of goods or services;*
 - *amounts claimed are correct as to quantities and prices for goods or services provided;*
 - *claims are entered promptly in departmental records;*
 - *prompt and vigorous action is taken to collect all claims, including amounts due from other departments; and*
 - *claims are not removed from departmental records until satisfied by payment or a properly authorized deletion action.*
- *All monies received as tax revenue, non-tax revenue or other receipts shall be properly safeguarded, accounted for and promptly deposited.*

GUIDELINES

- *Non-tax revenue should be collected prior to the provision of goods or services, or an account receivable billing should be issued as soon as administratively feasible after the provision of goods or services.*
- *Departments should determine the limits of the collection actions that are both warranted and feasible on the various types of accounts receivable, examine on a regular basis all overdue accounts where such action has been exhausted, and initiate action to delete uncollectable accounts promptly.*
- *Similar records and procedures to those used for the normal accounts receivable of a department should be used for loans and advances since these are special categories of accounts receivable. Supplementary records and procedures may be required according to the circumstances and statutory authorities under which the loans and advances are made.*

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A. INTRODUCTION

For a number of years the Public Accounts Committee, the Auditor General and Treasury Board have all pressed for more vigorous action by departments to claim revenues at realistic rates wherever appropriate; to control claims outstanding; to utilize adequate collection procedures to ensure that all debtors of the Crown are required to meet their obligations; and to ensure when monies are received that they are adequately safeguarded and accounted for.

Revenue is classified as either tax revenue or non-tax revenue. Tax revenue is the main type of revenue and covers principally personal and corporation income taxes, sales taxes, and import and excise duties. Because tax revenue when collected by the Department of National Revenue is collected as its operational program, matters relating to that collection are not covered by this chapter. However, guidelines on the handling and deposit of public monies after receipt apply equally to tax and non-tax revenue.

Non-tax revenue includes principally those monies arising from fees and charges levied for goods and services provided, regulatory fees, fines and penalties, returns on investments and refunds of prior years' expenditures. Monies which are credited to an appropriation or are credited to a revolving fund, working capital advance or special account are not classified as budgetary non-tax revenue, but as receipts. Nevertheless, all the requirements of this chapter apply equally to such receipts.

Wherever economically and administratively feasible, departments ought to charge for all goods supplied or services rendered to the public, unless there are provisions for specific exemption.

Services provided to the public under departmental programs fall into two categories; those that are provided because of the collective political choice, and those that are provided on the basis that the use of services requires payment of a price:

- Public services — These are services which satisfy the needs of the public as a whole, and from which everyone stands to benefit. Since everyone benefits, it is considered equitable that the costs of the services be borne through general taxation. An example of public services are those related to law enforcement — covering the activities of the police, the courts and the penitentiary service.
- Services to the public — These are services of public importance rendered by government to individuals or groups of individuals, either at their specific request or arising from their actions. Since the services are usually rendered at the option of identifiable individuals, or groups of individuals, the cost of the services should be borne by them. Examples of services to the public are the issuing of passports, the supervision of racetracks and the supply of prosthetic appliances.
- In addition to those services to the public which are rendered on request, there are other services which are principally of a regulatory nature for which the individual who receives the service receives a personal benefit and so may be required to pay for it. Examples are inspection services such as those relating to weights and measures.

Where services to the public are being provided, departments should regularly review fees and charges to determine whether charges should be introduced, or adjusted in the light of changes in the costs of the services. A suitable time for such a review would be when the program forecast is being prepared each year, since this is the time when program costs in general are being reviewed.

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Section 13 of the Financial Administration Act empowers the Governor in Council, on the recommendation of Treasury Board, to prescribe fees and charges for services. In addition, it enables the Governor in Council, again on the recommendation of the Treasury Board, to authorize Ministers to prescribe fees and charges in respect to their departmental programs "notwithstanding the provision of any other Act". In order to obtain this latter authority, departments are required to submit to Treasury Board a proposed scheme under which their Minister would set fees and charges for a particular program. Such proposals should contain details of:

- the pricing policy proposed;
- the components of cost on which prices will be based;
- the cost accounting system being operated to determine the elements of direct and indirect costs;
- the computation of the first changes from any statutory rates it is intended to implement if the proposal is approved; and
- the proposed time period for a cyclical review of costs and charges.

It must be recognized that the government will not wish to have this responsibility delegated for all programs and services. In certain instances, such as some postage rates, the approval of fees and charges has been recognized as a traditional right of Parliament.

Normally charges for a service to the public should first be considered in the light of rates which will recover the full cost of the service, including all direct costs and the appropriate portions of indirect costs incurred both by the department itself and by other departments on its behalf. Recovery of total costs cannot, however, be justified in all circumstances. Where a service is of a regulatory nature, or is partially of a regulatory nature, a fee or charge fixed on a total cost basis may not be warranted. Nevertheless there is a need to review rates from time to time to ensure that the situation does not arise where after several decades a fee is ridiculously low in relation to present day costs. If the introduction of a more realistic fee involves a doubling or trebling of the existing fee, adverse public reaction would likely result and therefore regular review and adjustment is more desirable. Circumstances vary considerably from case to case, and where departments are in doubt on the policy to adopt they are advised to consult Treasury Board staff on the matter.

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B. CLAIMING REVENUE

Revenue is collected under many different conditions and circumstances, and as a consequence, the action to be taken to establish the Crown's claim to revenues will vary considerably from program to program. Some revenue is collected by public servants directly from members of the general public, across a post office counter, at the gate of a national park, etc. In such instances the revenue is collected in cash before the service is rendered. In other cases, as in the issue of a passport or a citizenship certificate, failure to provide a fee along with the application results in the service being withheld.

Where payments can be collected only after services have been provided, certain controls are essential to ensure:

- that a billing is issued;
- that each billing is complete and covers all the services or goods supplied; and
- that the billing is computed at the correct rates.

The controls to ensure that these objectives are achieved must be built into the operational system of the service concerned. Paperwork generated through operational systems should be linked up with the financial system to ensure that all revenue is billed. For example, in the case of the sale of goods from storage, the system must ensure that every issue from stock is made solely on the authority of a prenumbered requisition; that every requisition is accounted for through serial number control by an appropriate billing section; and that a billing is raised at correct rates for every requisition from stock.

The sale of goods from stock is a simple example. In other cases it will be necessary to bring several documents together in order to achieve a complete billing, as in the case of hospital treatment. The in-patient record controls the assessment of bed-day charges; the theatre log controls the assessment of surgery fees; and other appropriate records control the assessment of extra charges, such as ambulance service and rental of crutches. Complete control involves cross-checking in-patient records with admission and discharge records, and a daily proving of the complete coverage of current paperwork by a "stocktaking" of bed patients through the medium of a "midnight bed count".

Billings issued by government departments should include:

- terminology in a form making them clearly recognizable as billings;
- adequate identification of goods or services supplied;
- details of computations of charges;
- references to clients' orders;
- an indication that paying instruments shall be drawn in favour of the Receiver General for Canada;
- an address to which remittances are to be sent, indicating the name of the department, not that of an individual; and
- terms of payment.

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Since it is government policy to require payment of fees and charges at the commencement of the provision of a service to the maximum extent feasible, and billings are supplied only where collection before service is not practicable, deferred terms of payment should be rare.

Billings should be submitted promptly after the completion of services or delivery of goods. Where services are rendered on a continuing basis or over a lengthy period of time, billings should be submitted on a continuing or progress basis.

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C. ACCOUNTS RECEIVABLE

1. Accounting for Receivables

It is the responsibility of every department to ensure that every claim for non-tax revenue is entered promptly in the accounts of the department as an account receivable and is maintained in those accounts until collected from the debtor in full. Such accounts are an integral component of the department's accounts and should never be regarded as memorandum accounts.

Whether the record of an account receivable is in a ledger maintained manually, mechanically or electronically, or is in an open file of unsettled billings, it is essential that it be kept by the name of the debtor in such a manner that his total indebtedness can be quickly determined on an aged basis. It is also essential that accounting control be maintained over the total accounts receivable. This can be achieved by the operation of an accounts receivable control account in the department's principal accounting system. The total amount of billings and cash receipts should be entered in the control account on a daily, weekly or other appropriate basis. Adjusting entries, such as authorized deletions of accounts, should also be entered in the control account, and each month the total of all the outstanding balances in the individual accounts should be agreed to the balance in the control account. Supervisory officers should pay particular attention to this reconciliation operation as it is a key control function in the revenue process.

2. Collection of Receivables

Departments must take prompt and vigorous action to collect every account receivable or other debt, including amounts due from other departments. Collection action will differ depending on the nature and the circumstances of the debts concerned.

a. Normal action

In most instances, routine collection action should be taken on a progressive basis. Where warranted, monthly statements should be instituted, and where payment is slow they should be submitted on an aged basis to keep debtors fully advised as to both the extent and the condition of their indebtedness.

All accounts receivable should be reviewed on an aged basis monthly by an officer higher than the person responsible for the maintenance of the accounts receivable. This review should be the basis of a summary report to progressively higher levels in the organization on the aging of all receivables, together with individual reports on more difficult and significant debtors.

In addition to the use of statements, it is essential that supplementary collection action be taken by letter, telephone or personal contact. This should be carried out by having progressively higher level officers in the department address their peers in the debtor organization. Where tangible services or goods are being supplied, senior operational personnel of the branch supplying the services or goods should be brought into the collection activity at a relatively early stage. Where senior levels in the financial and operating branches become involved in direct contact with the debtor, their efforts should be directed towards establishing an understanding for continuing future prompt settlement, rather than just concentrating on the settlement of accounts outstanding at that time.

b. Offers of realizable security

Where a debtor is not immediately in a financial position to pay an amount in full, and particularly if the amount owing is large, good realizable security may, with the advice of the Department of Justice, be accepted to protect the Crown's interest.

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The approval of the Governor in Council is ordinarily required where a mortgage is to be accepted as security for the payment of a debt due the Crown. In such circumstances a submission setting out all relevant details, including a full description of the proposed mortgage, should be sent to the Treasury Board for review and advice.

c. Counter claims against the Crown

On occasion a Crown debtor is also a Crown creditor in another area of government. Where the debtor has not settled the department's claim and is not prepared to direct that an amount owing to him be applied against his obligation, recovery action should be instituted under the provisions of Section 95(1) of the Financial Administration Act. After confirmation by the Department of Justice that there is a debt owing, the creditor department makes a submission to Treasury Board requesting that the provisions of Section 95(1) of the Financial Administration Act be invoked, indicating in the submission whether:

- any fault on the part of the department contributed to the existence of the debt;
- the proposal has been agreed with the department required to effect recovery to ensure there are no adverse repercussions on that department's requirement; and
- the rate and amount of recovery is reasonable and will not cause undue hardship.

d. Bankrupt debtors

Where a debt is owed by a person who, since the debt was incurred, has declared bankruptcy, the creditor department must file a proper claim with the trustee in bankruptcy and make every effort to recover the amount from the bankrupt estate in accordance with normal procedures.

If the bankruptcy proceedings have reached the stage where the trustee has been discharged, but no order of discharge has been granted to the bankrupt, the possibility of collection of the debt should be investigated through bankruptcy officials. If, however, an order of discharge has been granted to both the trustee and the bankrupt, the account may be adjusted by the department on the basis of the order of discharge without attempting to collect any balance owing.

e. Compromise settlement under the Department of Justice Act

The Department of Justice has ruled that, where a compromise settlement of a debt is arranged with its concurrence, the original debt is automatically expunged and replaced by the amount of the agreed settlement. The account receivable records will therefore be adjusted accordingly.

f. Missing debtors

All reasonable action must be taken to locate a missing debtor taking into account the amount of the obligation and the administration and collection expenses that may be incurred.

There are a number of tracing sources available to departments to assist them in locating debtors. These include:

- the information available in other federal government departments and agencies, such as Post Offices, Canada Manpower Centres, the Unemployment Insurance Commission offices, etc.;
- the information available in provincial government departments and agencies, such as the Motor Vehicles Licence Bureau, etc.; and

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- the information and services available from commercial credit organizations.

Departments should utilize those that are most effective and economical.

g. Claims arising from defalcations by public officers

A defalcation or other fraudulent act or omission by a public officer gives rise to a claim against that officer. A Public Officers Guarantee Account has been established to provide a central recording of losses due to acts or omissions of public officers and a means of reimbursing other accounts for the losses incurred.

The Public Officers Guarantee Regulations, which are included in Part I of this Guide, set out the procedures for reporting such defalcations and for the submission of claims against the Account.

It is essential that the Treasury Board be notified of all defalcations in accordance with Section 4(b) of the regulations, irrespective of whether or not a claim against the Public Officers Guarantee Account may be required. Unless losses due to defalcation can be recovered to the Crown in the fiscal year in which they occur or were discovered, departments and agencies should seek Treasury Board authority to reimburse such losses from the Public Officers Guarantee Account before the end of that fiscal year.

Requisitions for payment of claims approved by Treasury Board should be addressed to the Financial Services Division of the Treasury Board which provides accounting services in respect of the Public Officers Guarantee Account.

h. Interdepartmental claims

In recent years there has been a significant increase in the volume of charges made for services between departments. The principal reasons for this increase have been the establishment of certain services within government on the basis that they be self-sustaining, and the establishment of the Department of Supply and Services which is recognized in its enabling legislation as a common service agency empowered to charge for services provided.

The rapid increase in the number of services for which charges are made, coupled with the encouragement given to recover total costs, has led to a number of problems, particularly for those common service agencies which are required to finance themselves on a self-sustaining basis. The main problem arises from the traditional concern of debtor departments first to pay salaries, second to pay outside suppliers, and last to pay other departments. This approach is no longer acceptable under present conditions where common service agencies depend upon prompt payment for the services they render before they can spend in order to continue rendering services. Departments which have supplied goods and services to other departments should take all appropriate action to collect the amounts due to them.

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D. RECEIPT AND DEPOSIT OF REVENUES AND RECEIPTS

The Financial Administration Act reads as follows:

- 11(1) — “Subject to this Part, all public money shall be deposited to the credit of the Receiver General.
- (2) — The Receiver General shall establish, in the name of the Receiver General, accounts for the deposit of public money with such banks and fiscal agents as are designated by the Minister.
- (3) — Every person who collects or receives public money shall keep a record of receipts and deposits thereof in such form and manner as the Treasury Board may prescribe by regulation.
- (4) — Every person employed in the collection or management or charged with the receipt of public money and every other person who collects or receives public money shall pay all such public money to the credit of the Receiver General in such manner as the Treasury Board may prescribe by regulation.”

Treasury Board has issued the Receipt and Deposit of Public Money Regulations to cover these requirements. These are referred to throughout this section as the Regulations.

1. Receipt of Money

Section 4 of the Regulations requires every person who collects or receives public money to:

- (a) keep a register in which he shall record the collection or receipt of all public money collected or received by him; and
- (b) upon request, or where directed by the appropriate Minister, issue a receipt or acknowledgement for any public money collected or received by him in cash.

Departments are responsible to determine the precise procedures to be followed and the ancilliary records to be maintained to ensure that all receipts of public money are adequately accounted for in order to meet the requirements of this Section. Each department needs to set up procedures and records that match the requirements of departmental operations. If different procedures and records are required for different programs, locations or organizational units, the department should proceed accordingly. Whenever possible, departments should utilize the standard “Cash Receipts Register” available from the Department of Supply and Services.

It is essential that all procedures prescribed for the receipt of public money call for the most stringent precautions to ensure the capture of all revenue at the moment it is collectable directly from the public or received on departmental premises. Where a cash transaction is involved, the minimum precaution should be to record it initially by means of a mechanical cash register, as in the case of a cafeteria. In other instances a serially pre-numbered receipt should be issued, or some other document which incorporates or can serve the purpose of a receipt, such as a permit to travel in a national park.

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Where money is received through the mails, arrangements must be made for two persons to be present at the mail opening and for an immediate record to be made of receipts both in those instances where the receipts are in the form of cheques, money orders or other such instruments and where actual cash is received. Wherever it can be arranged, it will be desirable to have a member of the financial staff attend the mail opening, participate in identifying any money received, enter the receipts into the daily register of receipts while still in the mail room, and obtain the signature on the register of the member of the mail room staff who was the second person present throughout the entire proceedings, all of which should be carried out before the money is removed from the mail room.

The division of duties is important in discouraging fraudulent practices related to the receipt and deposit of money. Wherever possible different members of the financial staff should be responsible for custody of money, maintenance of cash receipts records, and reconciliations. Adequate safekeeping facilities must be provided for the money during the period it remains on departmental premises.

2. Bank Deposits

a. Frequency of deposits

Section 6 of the Regulations specifies the regularity with which departments must deposit receipts in banks, regardless of the method of deposit used. Departments are required to make deposits every day when \$100 or more is on hand, or on the day when \$100 is reached, and in any case not less frequently than once each week when a lesser amount is involved. These requirements are written into the Regulations on the premise that the overwhelming majority of governmental revenues are collected in offices within easy reach of a branch of a chartered bank. However, where revenues are collected in isolated locations, such as camping grounds in national parks, departments should not incur excessive expense or excessive time of staff to meet the precise requirements of Section 6. The President of the Treasury Board may authorize extensions to the time within which public money is required to be deposited. Where departments have exceptional circumstances, such as exist in isolated places, they may request authority for time extensions. Authority for depositing on a less frequent schedule is normally contingent on adequate safekeeping facilities being available on departmental premises.

b. Deposit procedures

Under Sections 6 and 7 of the Regulations there are three alternative methods for depositing receipts to the credit of the Receiver General.

The first of these methods is to deposit the money into a "transfer account". Transfer accounts are accounts opened at the request of a department by the Department of Supply and Services in the name of the Receiver General in a branch of a bank which has been approved for the purpose by the Minister of Finance. These accounts are opened solely for the deposit of money and can be used for no other purpose. The deposits are allowed to accrue in these accounts until the point is reached when a transfer to the Receiver General Account with the Bank of Canada must be made. The Receiver General has the prerogative to prescribe the times at which the balances must be transferred; transfers must now be effected as soon as the balance in the transfer account exceeds \$10,000, and otherwise at least once each week. The transfer must be for the total amount in the transfer account by means of a transfer of funds voucher obtained from the bank in favour of the Receiver General.

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The second method is to take the receipts to any branch of a chartered bank and to obtain from the bank a transfer of funds voucher in favour of the Receiver General for the total receipts. This method does not require the use of a transfer account.

The third method is to deposit the receipts directly to the Receiver General Account with the Bank of Canada either at the Bank's head office in Ottawa or with the Bank's agents in the principal cities outside of Ottawa. Depositing with the head office is the usual practice for departments located in Ottawa-Hull while depositing with agents of the Bank outside of Ottawa is the practice for those major revenue-collecting departments which have been requested to do so by the Receiver General to expedite the transfer of large sums of money to the Receiver General account. Where a deposit is made directly to the Bank or its agents, departments must obtain a deposit receipt for the amount involved.

Under Section 8 of the Regulations, all transfer of funds vouchers and deposit slips must be forwarded immediately by the person making the deposit in accordance with instructions prescribed by the minister of the department. Usually the requirement is for these forms to be sent to a headquarter's financial branch of the department, along with such accounting documents as may be required for departmental purposes.

Under Section 9 of the Regulations, all transfer of funds vouchers, on receipt at headquarters, are included in the headquarter's daily deposit with the Bank of Canada and a deposit receipt is obtained in the usual manner.

Section 10 of the Regulations requires that all deposit receipts be forwarded to the Department of Supply and Services in accordance with the instructions of the Receiver General. Current instructions require that they be sent along with a "Distribution of Cash Receipts" form (D.S.S. 1374) to show the relevant fiscal accounting entries for the funds deposited by the department into the Receiver General Account.

In the case of large revenue-collecting departments there may be variations to these procedures requested by the Receiver General.

c. Deposit before repayment

Subsections 14(2) and (3) of the Financial Administration Act provide authority for money to be repaid to the payer in such circumstances as those where the purpose for which the money was paid has not been fulfilled; the amount is in excess of that payable; or it is determined not to be public money. Each of these subsections requires repayment to be in accordance with regulations of the Treasury Board, and the Repayment of Receipts Regulations have been made for this purpose. The main requirement of the Regulations is that where money is received in the first instance for purposes or under circumstances which make it public money, all such money received must be paid into the Consolidated Revenue Fund before any repayment is made. The Regulations are included in Part I of this Guide.

d. Deposits to revenue trust accounts

In some instances where departments receive funds which they are required to hold in trust, such as the funds of Indian bands or the personal monies taken for safekeeping from persons admitted to hospital, the funds may be deposited to revenue trust accounts. Revenue trust accounts are

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bank accounts established at the request of departments, for purposes individually approved by Treasury Board. They are opened by the Receiver General in branches of chartered banks in accordance with the Revenue Trust Account Regulations made by Treasury Board under Section 14(1) of the Financial Administration Act. Revenue trust accounts are operated by departments in similar manner to departmental bank accounts, except that departments make both deposits to and payments from the accounts, are responsible for all accounting during the fiscal year and are required to report the balances at the fiscal year-end to the Receiver General for the purposes of the Public Accounts.

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E. LOANS AND ADVANCES

Loans and advances are a special category of accounts receivable and require, with some variations, similar records and procedures to those used for the normal accounts receivable of a department.

Loans may be made:

- under the authority of departmental legislation;
- under the authority of a loan vote; and
- from a working capital advance or special account established for the purpose.

Advances may be made:

- from annual appropriations, under the authority of Section 31 of the Financial Administration Act;
- under a specific authority included in another statute;
- under the authority of a loan vote; and
- from a revolving fund, working capital advance or special account.

In addition, standing advances for travel, petty cash and departmental imprest bank accounts may be made from the Treasury Board working capital advance maintained for this purpose.

Entries for loans and advances in the accounts of a department should be based on similar procedures to those outlined for normal accounts receivable in Section C of this chapter. However, where loans or advances are made under the authority of a loan vote, balances in departmental records for the loans and advances must agree with the balances for the particular loan votes concerned in the accounts of Canada.

Claims for installments or other repayments of loans should be made in writing prior to the due date. Claims for interest due on loans should likewise be submitted prior to the due date, and entered as separate accounts receivable. Advances become due for repayment and must be accounted for when the purposes for which they were issued have been fulfilled. Proper follow-up procedures are required to ensure that repayments are made or refunds are received on a timely basis.

Unlike normal departmental accounts receivable, loans and advances made from loan votes and the balances in revolving funds and working capital advances established to finance loans and advances are treated as active assets of Canada, and are included in the Statement of Assets and Liabilities of the Government of Canada.

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Section 31 of the Financial Administration Act enables the Treasury Board to make regulations authorizing the making of accountable advances, and such regulations have been made as the Accountable Advances Regulations which are included in Part I of this Guide. Apart from advances specifically authorized by other statutes all accountable advances are authorized under these regulations, and are subject also to any other regulations, orders or directives which have been made by Treasury Board on matters which may require the issue of accountable advances, including the Travel Directive, Removal Expense Regulations and the Foreign Service Regulations and Directives.

The Accountable Advance Regulations recognize two basic types of advances:

- advances made temporarily for limited purposes, such as the trip travel advances used to finance specific journeys in travel status; and
- standing advances, made in fixed amounts to meet continuing expenditures, such as the standing travel advances issued to persons required to be constantly in travel status.

Deputy heads are authorized by the regulations to requisition advances to enable departmental personnel to carry out departmental programs where prompt expenditures must be made, and for which normal payment facilities are either not practicable or not immediately available. Advances are to be made in amounts which should be adequate only for the expenditures which can be expected to be made from them.

1. Advances from Annual Appropriations

Where advances are made from annual appropriations they are required by section 31 of the Act to be charged to the appropriation.

While the appropriation is charged at the time the advance is made, it is charged only as an advance and not as a payment. The charge as a payment comes after the relevant expenditures have been made from the advance, all the necessary documentation is available to enable the payment to be requisitioned and the required certifications to be made under Sections 26 and 27 of the Act. At this time the charge as an advance is cancelled and a monetary adjustment may be necessary by a refund or additional disbursement according to whether expenditures have been less than or greater than the amount of the advance.

In addition to the charge to the appropriation it is essential that advances also be entered in a subsidiary advances record which is periodically reconciled with the appropriation accounts recording advances. This will ensure that advances are properly accounted for and that outstanding advances are followed up when the appropriation is closed out at the end of the fiscal year.

At the end of each fiscal year all accountable advances from annual appropriations must be accounted for or repaid within 30 days. Treasury Board may grant an extension to this period, which is only given in exceptional circumstances and usually only in the case of departments with establishments abroad. In the case of advances made for purposes which have not been fulfilled by the end of the fiscal year, all or part of the advance may be transferred to the following year, but this may not be used as a means of deferring accounting for transactions which have taken place prior to the fiscal year-end.

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2. Standing Advances

Standing advances may be requisitioned from annual appropriations, but the vast majority are made from working capital advances authorized by Parliament for this purpose where there is need for continuing financing. While a small number of departments have been authorized to maintain their own working capital advance for this purpose, a central working capital advance, administered by Treasury Board, is available to provide resources to all departments and agencies.

Departments having a need to establish standing advances for travel, petty cash, departmental bank accounts maintained on an imprest basis, and such other purposes as Treasury Board may approve may apply to the Treasury Board Secretariat for an allotment from the working capital advance against which cheques may be requisitioned to establish individual advances. However, departments financing all or a major portion of their operations through a revolving fund or special account will finance travel, petty cash and departmental bank account advances pertaining to such operations through that revolving fund or special account.

Advances made from the central working capital advance for standing advances remain as a continuing charge against that advance account. Expenditures incurred by individual holders of advances are refunded to them from departmental appropriations with no involvement of the working capital advance in the transaction.

a. General requirements

To ensure the efficient use of all standing advances and to meet related operational and financial needs, departments should adhere to the following general requirements:

- individual advances should be made by the issue of a cheque in favour of the individual nominated as holder of the advance, on receipt of a payment requisition from the department signed by a duly authorized person;
- the authorized amount of each advance should be kept to a minimum, making allowance for a reasonable time to obtain reimbursement of expenditures;
- immediately prior to January 1 and July 1 each year, a reassessment of the need for each advance issued should be made;
- on January 1 and July 1 each year, each deputy head having advances issued from the central working capital advance shall submit to the Secretary of the Treasury Board a cash flow forecast showing the total amount of each type of advance which will be required from the working capital advance, indicating the amount and duration of any peak requirement, and the total monthly expenditures which will be made from the advances during the six-month period immediately following;
- on March 31 each year, each department shall obtain individual certificates acknowledging the continuing existence and responsibility for each advance which has been issued;
- on March 31 each year, each deputy head must provide the Secretary of the Treasury Board with a formal acknowledgement certifying the total amounts, by types of advance from the central working capital advance held in his department in order that he may meet the requirements of the Accountable Advances Regulations as regards reporting for the purposes of the Statement of Assets and Liabilities of Canada; and
- advances which are no longer required shall be refunded through normal departmental procedures by the individual to whom the advance was issued.

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b. Standing travel advances

This section should be read in conjunction with the Treasury Board Travel Directive.

The deputy head of each department should, in addition to the general requirements set out above, apply the following criteria in assessing the need for, and the amount and control of standing travel advances:

- the employee should travel on a frequent and regular basis, or other special circumstances should exist to justify the advance;
- the amount should not be in excess of the amount necessary to finance the average requirement for six weeks' travelling expenditures of the employee and wherever possible it should be limited to the average requirement for one month's travelling expenditures;
- the holder of an advance should be required to submit a claim to cover his expenditures for approval and reimbursement at least once a month;
- to reduce the amounts advanced to individuals, transportation tickets should be obtained through departmental credit facilities, including, in Ottawa, the Central Travel Service of the Department of Supply and Services, and departmental credit cards should be used where practicable;
- if practicable, departmental bank accounts should be utilized to make trip advances, thereby reducing the necessity for individual standing advances where the holder of the advance does not travel frequently but is too distant from Services offices to conveniently obtain trip advances in the normal manner.

c. Petty cash advances

The deputy head of each department should, in addition to the general requirements set out above, apply the following criteria in assessing the need for, and the amount and control of petty cash advances:

- petty cash expenditures generally should be made for those items where it is not practicable to pay for them by Receiver General or departmental bank account cheque issue;
- where a departmental bank account cheque cannot be used, consideration should be given to the payment of all items below \$10.00 from petty cash and where there is no direct contact with the payee, a postal money order could be used for this purpose;
- the authorized amount of a petty cash advance shall not exceed the amount necessary to meet the contemplated expenditures, adjusted for any seasonal requirements, taking into consideration the reimbursing cycle involved and allowing a reasonable time to obtain reimbursement;
- the holder of an advance normally should be required to submit his expenditures for approval and reimbursement on a monthly basis, but more frequently if a large volume of expenditures is involved; and
- where it becomes necessary to transfer the responsibility for an advance for petty cash expenditures, this should be effected by a refund of the existing advance by the present holder and the requisitioning of a new advance in favour of the new holder.

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d. Departmental bank accounts

- . This section should be read in conjunction with Part II of the Cheque Issue Regulations.

The deputy head of each department should, in addition to the general requirements set out above, apply the following criteria in assessing the need for, and the amount and control of departmental bank accounts:

- the deputy head should satisfy himself that at a particular location the cheque issue facilities of the Department of Supply and Services do not provide a sufficiently expeditious service with respect to the disbursements to be made through the accounts;
- the authorized amount should not be in excess of that necessary to meet contemplated expenditures adjusted for any seasonal requirements, taking into consideration the reimbursing cycle involved and allowing a reasonable time to obtain reimbursement;
- expenditures made through an account, normally should be submitted for approval and reimbursement at least on a monthly basis, but more frequently wherever practicable, particularly if a large volume of expenditures is involved;
- amounts deposited to departmental bank accounts to meet peak expenditure requirements must be refunded to the Consolidated Revenue Fund immediately after the need for additional funds has passed, to ensure that no public money is permitted to lie idle in departmental bank accounts;
- no overdrafts are permitted;
- no cheques should be drawn on a departmental bank account to make payments due outside of the geographical area of the responsibility centre operating the account;
- where payments are due outside of that area they should normally be made by means of a Receiver General cheque; and
- the Receiver General will require two signatures on all cheques issued unless in the case of a specific account he is in agreement that conditions warrant the use of only one signature.

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F. DELETION OF DEBTS

Section 18 of the Financial Administration Act empowers the Governor in Council, on the recommendation of Treasury Board, to make regulations authorizing deletion from the accounts in whole or in part, of any obligation or debt due to Her Majesty or any claim by Her Majesty that does not exceed five thousand dollars.

The Deletion of Debts Regulations which are included in Part I of this Guide, delegate authority to delete from the accounts, in whole or in part:

- to the minister of each department, a debt that does not exceed two thousand dollars; and
- to the Treasury Board, on the recommendation of the appropriate minister, a debt that exceeds two thousand dollars but does not exceed five thousand dollars.

All debts deleted from the accounts under either of these circumstances are required by Section 18(2) of the Act to be reported in the Public Accounts of the fiscal year in which they were deleted.

The Act makes no reference to debts that exceed five thousand dollars which means that Parliament has retained the right to delete debts in excess of that amount. Authority is obtained through an item included in the first available supplementary estimates of the department, after prior approval by Treasury Board for inclusion of the item. When including an item for deletion in the supplementary estimates, the date and number of the relevant Treasury Board minute approving the inclusion in the estimates should be provided.

The deletion of any debt due to an asset account which is recorded in the Statement of Assets and Liabilities of Canada (i.e. revolving funds, working capital advances, loans, advances and investments) requires the reimbursement of that account by a charge to a departmental appropriation.

Submissions to Treasury Board relating to the deletion from the accounts of uncollectable obligations between \$2,000 and \$5,000, or over \$5,000, should be forwarded to the Submissions Control Unit, Treasury Board, employing the standard form of submission.

Deletion of debts will usually be required for one of two reasons:

- the debt proved to be uncollectable; or
- although the debt may prove to be collectable, it appears to be undesirable to pursue collection on grounds of expediency.

1. Uncollectable Debts

Submissions to the Treasury Board for the deletion of uncollectable debts are normally classified into one or more of the following categories:

- debtors who have died leaving no known estate;
- debtors who cannot be located;
- debtors who are indigent;

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- debtors not resident in Canada, where there are no apparent means of collection and there is no indication that the debtor has family or business ties that might encourage him to return to Canada;
- debts where, in the view of the creditor department, further expense to collect is not justified in relation to the amount of the debt and the possibility of collection;
- debts where the Department of Justice has indicated that the amount involved does not warrant the prospective costs of action to collect;
- debts where liability has not been admitted by the debtor and where the success of proceedings to collect is unlikely;
- debts where the existence of an enforceable debt due the Crown cannot be readily established, e.g., where records have been lost or destroyed so that the department is unable to prove receipt of services by the debtor; and
- debts where a corporation is inoperative and is without assets.

Such submissions are referred initially to the Standing Interdepartmental Committee on Uncollectable Debts Due the Crown, a committee established by authority of Cabinet to provide a critical review of recommendations received from departments and to advise Treasury Board on the disposition of obligations that are, in its view, uncollectable.

In dealing with departmental submissions the Committee is empowered:

- to call departmental officers and to receive supplementary information from departments with respect to:
 - specific recommendations,
 - general departmental collection procedures, and
 - measures taken by departments to avoid recurrence of uncollectable debts, and to report thereon, if deemed advisable, to the Treasury Board; and
- to require reference to the Department of Justice prior to consideration by the Committee of items recommended for deletion, except with respect to those departments where, in the opinion of the Committee, satisfactory legal review procedures are in effect.

While debts may be deemed to be uncollectable and may therefore be deleted, it still does not follow that any debt is permanently wiped out. If information is received which indicates that there are prospects of recovering the obligation, or any portion of it, collection action must be resumed as the account is still a debt due the Crown even though deleted from the active accounts.

2. Deletion on Grounds of Expediency

It is a fundamental principle that every possible effort must be made to collect in full every debt due the Crown. Thus the powers granted by the Deletion of Debts Regulations are to be applied primarily to the deletion of debts which have proved uncollectable.

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There are, however, circumstances under which moneys are legally due to the Crown but because of the circumstances which led to the creation of the debt, the Crown is prepared to forego collection, even though the debtor is capable of paying. Such cases would normally arise when the following three conditions are met:

- the debt arose as a result of an administrative error made by a public servant in the process of making payment or conferring a benefit to the debtor;
- the debtor was not advised of the debt within a reasonable period of time; and
- to demand payment at such a late date would be inequitable, or cause hardship to the debtor.

Departmental officers are expected to use the utmost discretion in recommending such cases to their Minister or to Treasury Board for deletion on grounds of expediency.

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CHAPTER XI — FINANCIAL AUDIT AND EVALUATION

DIRECTIVES

•Departments shall have financial audits performed, which include:

- reviewing and appraising the effectiveness and efficiency of departmental systems of financial administration, including the safeguarding of assets; and*
- ascertaining the extent of compliance of departmental systems and procedures with financial policies, regulations and other instructions of Parliament, Treasury Board and the department or agency.*

•To ensure complete objectivity in the audit function, financial auditors shall be independent of the managers directly responsible for the activities subject to audit and shall not be used to develop and install procedures, prepare records, or engage in any other activity that they would normally be expected to review and appraise.

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*•Financial audits should test the system of financial administration annually, covering each responsibility centre at least once every three years. A schedule of financial audits should be prepared each year with an annual report being submitted to the deputy head indicating actual coverage and results.**•The head of the financial audit group should be responsible to a senior officer in the department or agency who should be chairman of an audit committee composed of other senior officers having authority in the areas necessary to ensure adequate consideration of and effective action on the audit findings and recommendations.**•In departments which have an operational audit or management review function, financial audit should be organized as part of that function to eliminate the overlapping and duplication of work which might otherwise occur, and to contribute to the efficiency and effectiveness of independent appraisal activities within the department.*

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A. INTRODUCTION

This chapter is concerned with the review and evaluation of departmental systems of financial administration both from within departments by financial audit groups, and from outside departments by Treasury Board staff. It does not discuss the responsibilities of the Auditor General who conducts independent audits on behalf of Parliament.

Departments are required to establish, maintain and operate systems of financial administration which include, among other components, audits which independently and systematically appraise the systems. Guidance on the coverage required for these audits, on techniques for use in performing the audits and on the organization of financial audit within departments is provided in the next section of this chapter.

The final section of the chapter briefly describes the role Treasury Board intends to play in holding departments accountable for their performance in financial administration through continuing evaluation of departmental financial systems.

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B. FINANCIAL AUDIT WITHIN DEPARTMENTS

The system of financial administration in each department must be independently and systematically audited on a regular basis to ensure that it satisfies parliamentary and managerial requirements for financial visibility, accountability and control in the acquisition and utilization of financial resources. The purpose of financial audit is to provide management with independent, objective and constructive appraisals of the legality, effectiveness and efficiency with which financial administration is being performed in a department or agency. Financial administration systems in government are characterized by a degree of delegation and decentralization which makes it necessary for senior management to rely on systems of internal control to ensure that financial responsibilities are being adequately discharged. Financial audit is an essential element of internal control which functions by reviewing, evaluating and reporting to management on the adequacy of all other controls and on the detailed operation of the system of financial administration.

1. Audit Coverage and Techniques

a. Scope of audit

Traditionally, the scope of financial audit in government has been restricted to assessing the compliance of financial operations with prescribed policies and procedures. While compliance audits of this nature remain an important part of the operational audit of financial administration which is described in this section, greater emphasis must be placed on the audit of the design of the system and the effectiveness and efficiency with which it is operated. The systems-based audit described in the next part of this section should be supplemented by detailed tests in those areas of the system of financial administration where there must be a high degree of assurance that vital controls are operating as intended. These include:

- budgetary controls to ensure funds provided by Parliament are being used for the purposes and within the limits prescribed, including checking that disbursements and commitments are completely and accurately recorded, budgetary variances are properly analysed, and procedures for forecasting future requirements are adequate;
- accounting controls to ensure the accuracy and completeness of financial transactions, including checking the operation of batch, sequence and other controls both at the manual and computer processing stages;
- financial controls to ensure that the requirements for legality, probity and prudence are exercised in financial transactions, including checking that only properly authorized officers are exercising spending, commitment and payment authority and that they are performing these duties in a responsible and effective manner; and
- financial controls to ensure proper safeguarding of cash, inventories and other assets subject to misuse or misappropriation, including checking that responsibility for the custody of assets and maintenance of asset records are clearly separated and that appropriate physical safeguards are used to protect assets.

b. Frequency of audit

Financial audits should test all aspects of the system of financial administration at least annually, covering each responsibility centre at least once every three years. The system of financial administration includes all the matters covered by the policy included in this Guide. In testing the

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system, financial auditors should recognize the need to review on an annual basis the following aspects of financial administration:

- management of the financial function;
- classification of accounts;
- budget preparation;
- budgetary control;
- financial reporting;
- accounting for expenditures;
- financial control of expenditures; and
- revenue accounting and control.

Audits of responsibility centres can be scheduled in a number of ways to meet the requirement that the financial operations of each centre be reviewed at least once every three years. Auditors may review the entire financial operations of a responsibility centre in one visit every three years. Alternatively, they may visit all responsibility centres each year and review only part of the financial operations of each. If the first approach is used, coverage should be planned so that on an annual basis the sample of responsibility centres to be reviewed includes responsibility centres from each level of the department's organizational structure, from each departmental program and from each geographical area in which the department operates. If the second approach is used, both financial systems and responsibility centres should be divided into three groups. Audits should then be planned on a matrix basis so that, by using different combinations of the groups of financial systems and responsibility centres, a representative sample of all systems and centres is audited annually and the entire financial operations of each centre are audited over the three year period.

A schedule of financial audits should be prepared each year by the head of the financial audit group in conjunction with the senior financial officer. This schedule should provide for audits of the scope and coverage outlined above showing the estimated time, planned allocation of manpower and objectives of each audit assignment. The schedule should be flexible enough to permit special reviews or audits as circumstances require and should make provision for follow-up reviews of action taken on previous audit reports. When special assignments interfere with the scheduled audits, alternative steps should be taken to ensure that the minimum standards for audit coverage are achieved. This may require the use of outside audit services, temporary secondment of departmental staff from other areas to financial audit, or increases in financial audit staff.

The head of the financial audit group should report annually to the deputy head on the coverage and results of financial audits, including explanations of deviations from the approved annual audit schedule.

c. Systems-based auditing techniques

Early in the development of financial auditing, auditors had as their goal the verification of the accuracy of financial reports based on a detailed examination of all or nearly all of the individual transactions summarized in the financial reports. With rapid growth in both the scale and complexity of financial operations in both business and government, financial auditors have been forced to modify

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this approach. The increased volume and speed with which transactions are processed have made an examination of individual transactions on any substantial scale impracticable. The auditors have reacted by shifting emphasis from the verification of data going into financial reports to a review of the processing and control systems from which the financial reports are generated. This latter approach is based on the premise that, if procedures and controls are well designed and effectively operated, the data processed by the financial system in the form of reports and analyses will be reliable.

The development of systems-based auditing has resulted in extra benefits for management. Besides providing assurance concerning the integrity of the data produced by the financial system, auditors are now able to report to management on weaknesses in control and systems design, making the operation of financial systems either ineffective or inefficient. At the same time they are able to identify the causes of the reported problems. Because systems-based auditing is based on a review of currently operating systems, audit observations can be provided to management on a timely basis, thereby facilitating prompt remedial action, a key element in effective management control.

Appendix XI-1 provides a description of the conduct of an audit using systems-based auditing techniques.

2. Organization for Audit

a. Assignment of responsibility for financial audit

The head of the financial audit group should be responsible to an officer of sufficient rank in the organization to ensure adequate consideration of and effective action on the audit findings and recommendations. To preserve the independence and objectivity of the audit group, its head should not report to the senior financial officer of the department or agency. Since the deputy head is responsible for the overall system of financial administration of the department, the audit function should not be sub-divided with separate groups reporting to each program manager. In some departments the head of the audit group may report directly to the deputy head; in others he may report to a senior officer responsible directly to the deputy head for departmental administration.

Auditors must not work under the direction of the manager of an activity which they are evaluating nor should they exercise direct authority over persons in the organization whose work they review. Responsibility for taking corrective action on auditors' recommendations must rest with management.

As complete objectivity is essential to the audit function, the financial auditors must not develop and install procedures, prepare records, or engage in any other activity which they would normally be expected to review and appraise.

If the department has an operational audit or management review function, financial audit should be organized as part of that function. Depending on the nature of the management review function it may be desirable to organize a separate financial audit group within the function with its head reporting to the head of management review. Whatever the form of organization, overlapping and duplication of work by independent review and appraisal groups should be avoided. If financial audit is organized separately from management review, clear terms of reference should be issued for each group and the heads of the two groups should co-ordinate their annual audit schedules so that overlapping of work and interference with line operations can be kept to the minimum. There should

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also be a maximum interchange of information between the groups including provision of copies of all financial audit reports to the management review group.

The financial audit group should work in close co-operation with the senior financial officers of the department in planning the annual audit schedule and in following up audit findings. Proposed changes in financial systems should be promptly communicated to the financial auditors so that they can review the implementation of the changes and make appropriate adjustments to their audit schedule and programs. Every effort should be made to avoid assigning financial auditors to special non-audit assignments in the financial system since such assignments impair the objectivity of the audit group and may result in failure to complete scheduled assignments.

The Audit Committee is a good organizational device for the review of financial audit reports and the promotion of understanding and interest in the establishment and maintenance of good systems of internal control. The committee should be chaired by the senior officer to whom the head of the financial audit group reports and should be composed of other senior officers having authority in the areas necessary to ensure adequate consideration of and action on the audit findings and recommendations. These areas will normally include line operations, financial administration, information systems and systems and procedures development. The heads of the financial audit and/or management review groups should act as ex-officio members of the committee to advise it in its deliberations and provide staff support.

Responsibilities assigned to such a committee could include:

- review of financial audit reports or summaries of these reports;
- review of reports on action taken on findings included in the financial audit reports;
- review and approval of the annual schedule of the financial audit group; and
- review of proposals for changes in financial and operating systems.

b. Organization of the financial audit group

The size of the financial audit organization will vary from department to department and will be affected by the following factors:

- the size of the department;
- the extent of decentralization in the department;
- the complexity of the departmental financial administration system;
- the extent to which non-departmental auditing services are employed; and
- the scope and coverage of the financial audit function.

The capabilities of the department's financial auditors will directly affect the degree to which the financial audit function can assist management. Academic courses in management, accounting and auditing can aid financial auditors in acquiring the ability to review and evaluate the financial management system effectively, but much of this ability must be acquired by experience. It is essential that financial auditors be able to work effectively with all types of employees. They need to be able to communicate effectively both orally and in writing.

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Each audit group should have a nucleus of professionally qualified financial auditors. Other sources of staff for financial audit include:

- technological institute and university graduates with little or no experience and preferably with an interest in pursuing professional accounting qualifications;
- employees with a few years of government financial experience and an aptitude for auditing;
- departmental employees wishing to broaden their experience and gain management potential; and
- specialists in such fields as economics, statistics, operations research and data processing as may be appropriate to the demands placed on the financial audit function in a particular department or assignment.

Audit personnel should be rotated on recurring audits wherever possible. This not only broadens the experience of the auditors, but also permits a fresh approach to successive audits.

Depending upon the size of the audit group and the nature of the audits undertaken, the staff may work in teams or singly. In either case, there should be team leaders or supervisors for each group to review reports and working papers and to give general supervision on behalf of the head of the audit group.

In organizing for the financial audit function, departmental management should consider the services available from the Audit Services Bureau of the Department of Supply and Services. With a large professional staff located in major centres across Canada, the Bureau has the capability of providing operational audit services as well as services in the financial audit area ranging from a complete departmental financial audit to individual audits requiring expertise in dealing with computers and cost accounting systems. In addition, existing financial audit groups may wish to have the Bureau perform some scheduled audits which might not otherwise be completed because of manpower shortages.

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C. TREASURY BOARD EVALUATION OF DEPARTMENTAL SYSTEMS OF FINANCIAL ADMINISTRATION

Treasury Board is responsible under the Financial Administration Act for acting in matters of financial administration to safeguard the collective interests of the government. Through the policy, guidelines, regulations and chapters of this Guide and through various other documents, Treasury Board provides direction and guidance to departments in discharging their responsibilities for managing the financial function. In addition to giving such direction and guidance, Treasury Board must ensure that the performance of departments is acceptable and that further direction or guidance is not required. To achieve these objectives, Treasury Board staff will be undertaking a program to review departmental financial administration policies and practices on a regular basis. This program will provide the basis for an annual report on the state of financial administration to the Treasury Board ministers. In this way, it is hoped to improve the quality of financial administration on a continuous and progressive basis.

The review program will be performed by officers of the Treasury Board supported by departmental staff in most cases. The effectiveness of a supporting system such as financial administration cannot be determined in isolation from the operations of a department and the review will therefore not be limited to the organizations providing financial services. Nevertheless, these organizations will be of primary interest because they are expected to play a leading and co-ordinating role in departmental financial administration. Upon completion of each review, an evaluation report will be prepared for the deputy head of the department, copies of which will also be released to appropriate Treasury Board officials.

An evaluation of financial systems in each department or agency will be performed at least once every five years, with work between reviews being confined to follow-up activities and studies of particular problems. As a result of this work it is expected that a close functional relationship will be established between evaluation staff of the Board and financial staff in departments and agencies. This should result in the opening of new informal channels of communication which will benefit both the departments and the Treasury Board.

The Treasury Board evaluation team will avoid duplicating work performed by departmental financial staff and financial audit groups wherever possible. The team's approach will be to review systems documentation prepared by financial staff and programs and reports prepared by financial auditors, and if they are satisfactory, to perform the Treasury Board evaluation in a way that supplements such work done within the department.

Part III of this Guide is a copy of the Financial Administration Evaluation Checklist which will be used by Treasury Board evaluation staff in gathering preliminary information on departmental financial systems as a basis for planning the scope and extent of their detailed review. The checklist identifies the documentation of financial administration systems which should be available in departments and is based on the material included in this Guide. Financial staff and financial audit groups in departments will find the checklist useful in assessing their progress in implementing the policy and guidelines included in Part I of the Guide.

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SYSTEMS-BASED AUDITING TECHNIQUES

1. Introduction

1.1 Five phases of a systems-based audit are described in this appendix:

- preparing for the audit;
- gathering and documenting systems information;
- evaluating internal control and efficiency;
- preparing the audit program; and
- reviewing and reporting.

1.2 This description has been written to include requirements where a systems-based audit is being conducted for the first time. Much of the data obtained in the first audit can be used again both in subsequent audits and in audits of similar responsibility centres or financial systems.

2. Preparing for the Audit

2.1 On receipt of an audit assignment the auditor who is responsible should commence by planning the audit. Before preparing the audit work plan he should:

- familiarize himself with the objectives of the assignment;
- review previous audit reports and working papers which are relevant to the assignment;
- review current financial reports and other available data for the area subject to audit; and
- meet with the manager of the area to be audited.

2.2 In the meeting with the manager, the auditor should ensure that the manager is fully informed of the nature and objectives of the audit. He should discuss generally the responsibilities of the staff reporting to the manager, review the nature and volume of financial transactions flowing through the financial system and seek to obtain the manager's co-operation in explaining the nature and objectives of the audit to his staff. He should also enquire if there are any particular areas which the manager wishes to have reviewed in depth.

2.3 Taking into account the time estimate for the assignment included in the annual audit schedule, the auditor should then prepare a general work program for completing the assignment. This program should identify the allocation of audit staff and estimated time applicable to each major phase of the work. It will later be supplemented by detailed audit programs as described below. The work program should be reviewed with both the responsible auditor's supervisor and the audit staff assigned to assist in the audit.

3. Gathering and Documenting Systems Information

3.1 With the planning phase of the procedural audit completed, the audit team is ready to begin its on-site detailed review of the financial systems. A clear and accurate understanding of how the

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financial systems operate is essential to the success of the audit. The information obtained should be documented to facilitate assessment of systems design, evaluation of control, compliance with prescribed policies and procedures, report writing, review within the audit group and the conduct of future audits.

3.2 Procedures

3.2.1 First the auditor should obtain a general understanding of what is included in the system and how the system operates by:

- referring to notes prepared during the planning stage;
- discussing the overall system briefly with the person who is responsible for its operation;
- scrutinizing reports, accounting records and document files to identify all possible types of transactions occurring in the system; and
- reviewing relevant sections of the departmental financial manual and other available documents used to communicate systems information.

The purpose of this step is general orientation and the auditor should, therefore, avoid immersing himself in detail.

3.2.2 The second step is to trace each type of transaction or financial operation through the system from beginning to end, or vice versa, by discussing the procedures with the employees who actually perform them. The auditor should determine:

- what the employee's procedures are;
- what records he keeps;
- what documents he processes;
- from whom he receives the documents; and
- to whom he sends the documents.

It is important that he trace all documents copies which have a bearing on the reliability of the system. Ideally, these discussions will be held at the employee's place of work. This will make it possible for the auditor to observe the employee's procedures and the relevant documents and records. The auditor should obtain sample copies of financial forms for retention in the audit working papers.

3.2.3 The third step is to record the system in flow chart or narrative form for retention in the audit working papers. Flow charting is a more concise and efficient means of recording systems data than narrative description and it is recommended for use in systems-based auditing. The auditor can use flow charting as a shorthand technique for recording details while interviewing employees. Rough charts prepared during these interviews are easily consolidated. The final, consolidated charts present the reader with a bird's-eye view of the system which assists him in mentally integrating related points and in analysing the system for weaknesses in control. Once a particular flow charting system has been adopted, it should be used on a uniform basis by all members of an audit group.

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3.2.4 The final step is to obtain and record data on the physical dimensions of the system. Once the auditor has prepared a description of the design of the system, he should supplement this description with volume statistics which place the different procedures in perspective before any attempt is made to evaluate internal control and efficiency. The statistics to be obtained are a matter of judgement and will vary from system to system but should include such items as:

- number of persons involved;
- monthly/annual volumes of each document processed;
- monthly/annual dollar-value of each type of transaction; and
- number of accounts maintained in subsidiary accounting records.

4. Evaluating Internal Control and Efficiency

4.1 Internal control questionnaires

4.1.1 An important tool which can assist the auditor in the evaluation of internal control is a questionnaire composed of a series of questions based on the principles and proven methods of good internal control in financial systems. The questions are normally designed so that a negative response indicates a probable weakness in internal control. The completed questionnaire identifies the strengths and the potential problem areas in the financial systems and serves as a record of the auditor's evaluation of internal control.

4.1.2 Using existing control questionnaires as a model, financial audit groups in government should develop a questionnaire suited to their particular requirements. This development should take into account the requirements of legislation, executive orders and the policy statements of both Treasury Board and the department with respect to financial administration.

4.2 Efficiency questionnaires

Questionnaires for use by internal auditors should also include questions designed to assist in evaluating the efficiency with which the various financial systems are operated. Examples of inefficiencies for identification through such questions are:

- unnecessary handling of documents;
- inefficient routing of documents;
- unnecessary document copies and records;
- unused information on documents and records;
- inadequate planning and delegation of work;
- inadequate instructions to employees;
- insufficient or excessive use of office machinery;
- poor utilization of data processing facilities;
- poorly planned reporting systems; and
- poor design of office layout.

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4.3 Evaluation

- 4.3.1 Internal control and efficiency questionnaires assist the auditor by reminding him of the key points to consider in his review of systems documentation. However, they are only a tool and cannot be considered a substitute for the auditor's judgement. Auditors should be prepared to modify standard questionnaires as required by circumstances.
- 4.3.2 After completing the applicable sections of internal control and efficiency questionnaires the auditor should examine the documentation for each financial system carefully, asking himself with respect to each step in the system what would happen if the step was omitted or performed incorrectly, either by accident or by intent. If the omission or error would be automatically detected, internal control is satisfactory. If not, it is weak.
- 4.3.3 As the evaluation proceeds, details of apparent weaknesses in internal control and inefficiencies, together with the auditor's assessment of their significance should be noted in the audit working papers. These notes will assist in the development of the audit program.

5. Preparing the Audit Program

- 5.1 The audit program outlines the detailed audit procedures to be performed to determine the accuracy and significance of the auditor's preliminary findings on internal control and efficiency and for checking systems design and compliance with prescribed policies and procedures. An audit program should be completed for each assignment. When completed, the work program prepared in the preparatory phase of the audit and the audit program provide a summary of the organization and conduct of the audit including what was done, who did it and how long it took.
- 5.2 There are two distinct types of procedures that should be included in the program for investigating findings on internal control and efficiency:
- procedures designed for the investigation of apparent inefficiencies and control weaknesses; and
 - procedures designed to provide assurance that the rest of the system is operating effectively.
- 5.3 Before investigating apparent inefficiencies and control weaknesses, the auditor should assess their significance carefully and note his conclusions in his working papers. Minor problems should not be investigated although they should be noted for reference to management at the conclusion of the audit. Procedures for investigating potential significant inefficiencies and control weaknesses should be designed to verify their existence and to provide sufficient quantitative data to provide an estimate of their significance in the report to management.
- 5.4 For each procedure the program should identify:
- purpose of the test;
 - extent and basis of sample selection;
 - name of the auditor responsible;
 - time taken; and
 - supporting working papers.

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- 5.5 In addition to investigating internal control and efficiency, the audit program should include procedures to assess operational aspects of the financial administration system which are not purely control and efficiency oriented. These procedures should determine the conformity of the system to standards for financial administration such as those outlined in this Guide.
- 5.6 As substantial audit time may be invested in completing the procedures outlined in the audit program, it is advisable that the program be subjected to independent review before it is implemented. This provides an excellent opportunity for the auditor's supervisor to review progress to date on the audit assignment and to assess the auditor's judgement. The supervisor should examine the system and control evaluation working papers on which the audit program is based to satisfy himself that all apparent problem areas have been identified and that the program is adequate under the circumstances.
6. Reviewing and Reporting
- 6.1 After completing the procedures outlined in the audit program, the auditor should assess the results and determine whether he is ready to prepare his report. In certain circumstances he may find it necessary to perform additional tests of the system as a result of matters discovered while performing his programmed tests. When he is satisfied that all necessary tests have been completed he should summarize his findings in a form suitable for reporting to management.
- 6.2 Before leaving the audit site, the auditor should review his findings with the responsible manager, identifying matters of significance which will be included in his report as well as minor matters which, while not to be included in the report, should be of interest and assistance to the manager. If the discussions are conducted on a positive basis, action to remedy many of the observed deficiencies is likely to be taken immediately. Management's views should be solicited and remedial action given full recognition so that the audit report can become a constructive vehicle for action.
- 6.3 The following points should be considered by the auditor in preparing his report:
- it should be addressed to a person specifically designated for that purpose;
 - it should be properly indexed, easy to read and designed to catch and hold the attention of the person to whom it is directed;
 - the objectives and scope of the audit should be clearly indicated;
 - only items of significance should be included, with minor discrepancies being referred directly to management for correction;
 - a summary of findings should be provided at the beginning of the report to identify situations that are handled extremely well, negative conditions observed by the auditor and findings which require action at a higher level of management;
 - detailed explanations of negative audit findings should be provided to supplement the summary to indicate the weakness or inefficiency inherent in each condition commented upon, recommendations for remedies and the benefits to be derived. Every effort should be made to give dimension to these problem areas by using appropriate quantitative data obtained while performing audit tests; and
 - relevant comments of the manager should be included under each observation to indicate whether or not the points which have been raised have been resolved.

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6.4 The draft audit report and supporting working papers should be reviewed by an audit supervisor to assess:

- the effectiveness of the audit;
- the form and content of the report and working papers; and
- the performance of the audit staff.

If the supervisor has already reviewed the conduct of the audit up to the preparation of the audit program, as recommended in the previous section, he can restrict his review at this stage to satisfying himself that the tests outlined in the programs have been performed satisfactorily, that the appropriate conclusions have been reached, and that they are clearly expressed in the audit report. This will facilitate the prompt release of the report, which is essential if the report is to serve as a basis for management action.

6.5 In his final review of the audit working papers the supervisor should ensure that they provide an accurate record of the work performed, sufficient evidential matter and analysis to support facts and opinions included in the audit report, and useful reference material for future audits. The working papers should be organized and indexed in accordance with the system adopted within the audit group and their content should include at least the following:

- written statement of the objectives of the audit;
- copy of the audit report;
- audit program;
- time summary showing budgeted and actual time on the assignment with explanations for any variances;
- flow charts and other systems documentation including volume summaries;
- internal control and efficiency evaluation questionnaires;
- listings of items included in audit samples;
- appropriate account analyses;
- notes prepared in discussions with responsible management; and
- a memorandum of matters to be followed up in subsequent audits.

6.6 Each working paper should be complete in itself and should include appropriate headings, the name or initials of the person who prepared it and the date on which it was prepared, the sources of data included, and audit procedures used to verify the accuracy of the data included.

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EVALUATION CHECKLIST

INSTRUCTIONS FOR USE

Purpose

This checklist is designed primarily for use by Treasury Board staff in conducting evaluations of financial administration systems of departments to review the effectiveness of the policy, to determine the degree of compliance with the directives, and the degree to which the guidelines are accepted and applied.

Procedures

1. A separate checklist should be completed for each program administered by a department. However a single checklist may be used where procedures are common for all programs provided that variations are explained.

2. The checklist consists of a series of questions to be answered by using one of the following symbols:

- Yes (✓)
- No (X)
- Not applicable (N/A)

A yes (✓) answer indicates that the documentation provided on the departmental financial system provides information to assist in determining whether the system complies with the directives or satisfies the guidelines as interpreted in Part II of the Guide on Financial Administration for Departments and Agencies of the Government of Canada. A no (X) answer indicates that inadequate provision is made in the system to meet specific directives, guidelines or the interpretation in Part II. A not applicable (N/A) answer indicates that the subject does not apply to the department.

3. The checklist contains three types of questions. The first is directed towards determining that systems, procedures and instructions are completely and accurately documented. The second seeks to identify specific features that are expected to be found in the documentation of departmental systems. The third combines aspects of the first and second type. The documentation referred to may take a variety of forms. It may be:

- manuals, directives and other instructions which are issued formally for use throughout the department or within a program;
- statements of duties, organization charts, program operational instructions or other documents; or
- flow charts, systems descriptions or other material produced by financial officers at the departmental or program level to assist them in directing or understanding the systems for which they are responsible.

4. Departmental financial officers should be asked to review the checklist and assemble the documentation prior to the commencement of the evaluation.

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5. The evaluation officer should review the completed checklist with the senior departmental financial officer to ensure that the answers provide a true assessment of the documentation and features of departmental systems.

6. In cases where a simple yes or no answer is considered to be misleading, appropriate explanations should be included in or attached to the checklist.

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1. MANAGEMENT OF THE FINANCIAL FUNCTION

General

Is there documentation on the respective financial administration responsibilities of:

1.1.1 — responsibility centre managers

1.1.2 — financial officers?

Organizational Arrangements

Does the statement of duties of the senior officer responsible for financial administration include responsibility for:

1.2.1 — advising the deputy head and his staff on the needs of the department in the area of financial administration

1.2.2 — advising the deputy head of the financial implications of decisions at the planning and operational stages

1.2.3 — advising on the application of legislative, regulatory and other financial requirements of Parliament and central agencies

1.2.4 — directing the design, communication and maintenance of systems of financial administration

1.2.5 — providing guidance on the organization, staffing and training of financial units?

Do the organization charts identify functional lines of authority and accountability for financial administration:

1.2.6 — at the departmental level

1.2.7 — at the program level

1.2.8 — at the responsibility centre level?

Do the statements of duties for financial officers identify and distinguish between their line and functional authority and responsibilities:

1.2.9 — at the departmental level

1.2.10 — at the program level

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1.2.11 — at the responsibility centre level?

1.2.12 Does the senior financial officer have a program for the review of performance evaluations of all financial officers in the department?

Training Program

Does the department have a documented plan for training in financial administration which provides for:

1.3.1 — operational managers and staff

1.3.2 — financial officers and staff?

Communication of the System of Financial Administration

Does the department maintain a manual which contains details of its financial systems for:

1.4.1 — classification of accounts

1.4.2 — budget preparation

1.4.3 — budgetary control

1.4.4 — financial reporting

1.4.5 — accounting for expenditures

1.4.6 — financial control of expenditures

1.4.7 — accounting and control of revenue and accounts receivable

1.4.8 — financial audit and evaluation?

1.4.9 Are there procedures for insertion of directives, instructions or circular letters into the manual on a temporary basis until decisions on manual amendments are made?

1.4.10 Is the senior financial officer responsible for the financial administration content of the manual?

1.4.11 Are there procedures to ensure that the manual is kept up-to-date?

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2. CLASSIFICATION OF ACCOUNTS

General

Are the principles dictating design of the classification of accounts documented in relation to:

2.1.1 — expenditures

2.1.2 — revenues

2.1.3 — assets and liabilities?

2.1.4 Are systems and procedures for the design and maintenance of the classification of accounts documented?

Classification of Expenditures

Are there procedures requiring each expenditure transaction to be classified separately by:

2.2.1 — activity element

2.2.2 — responsibility centre

2.2.3 — departmental object?

Activity Classification of Expenditures

2.3.1 Does the classification system require that activity elements identify the costs of the lowest level processes and/or projects which are carried out to attain a program's objectives?

2.3.2 Does the classification system require that each activity element have an identifiable output?

2.3.3 Are there instructions on the method of aggregating activity elements into sub-activities and activities used in program forecast and estimates submissions?

2.3.4 Is the rationale of the system of aggregation documented?

2.3.5 Are there definitions to ensure consistent identification of administrative activity elements whenever they appear in a program?

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Responsibility Classification of Expenditures

Does the responsibility structure correspond to:

- 2.4.1 — the delegation of spending authority shown on the instrument for delegating financial authorities _____
- 2.4.2 — the lines of authority shown on departmental organization charts? _____
- 2.4.3 Does the classification system provide for identifying cost centres where necessary within a responsibility centre? _____

Object of Expenditure Classification

Does the object of expenditure structure identify departmental objects which are capable of being aggregated or related to:

- 2.5.1 — departmental reporting objects _____
- 2.5.2 — reporting objects and standard objects designated by Treasury Board _____
- 2.5.3 — economic objects required for governmental statistical purposes? _____

Revenue Classification

Does the revenue structure identify departmental objects which are capable of being aggregated or related to:

- 2.6.1 — departmental reporting objects _____
- 2.6.2 — reporting objects and standard objects designated by Treasury Board _____
- 2.6.3 — economic objects required for governmental statistical purposes? _____

Asset and Liability Classification

- 2.7.1 Does the classification system provide for setting up in departmental accounts those assets and liabilities reported in the Statement of Assets and Liabilities of the Government of Canada? _____
- 2.7.2 Does the classification system provide for setting up in departmental accounts those assets and liabilities not normally reported in the Statement of Assets and Liabilities of the Government of Canada? _____

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3. BUDGET PREPARATION

General

Are the systems used in preparing budgets documented for:

3.1.1 — operating expenditures _____

3.1.2 — capital expenditures _____

3.1.3 — grants and contributions _____

3.1.4 — cost recoveries? _____

Are unit costs of activity elements based on documented cost studies utilizing:

3.1.5 — prior year's costs _____

3.1.6 — variables related to volume _____

3.1.7 — projections of price changes _____

3.1.8 — work measurement or other engineered standards? _____

Instructions to Responsibility Centre Managers

Is a budget preparation directive issued to managers assigned budgetary responsibility which includes:

3.2.1 — time deadlines for preparing budgets _____

3.2.2 — dollar and man-year guidelines on budgets _____

3.2.3 — guidelines on arriving at levels of proposed outputs for each activity element planned _____

3.2.4 — instructions for preparation of operational work plans _____

3.2.5 — standard budget worksheets _____

3.2.6 — unit costs for each activity element _____

3.2.7 — methods for determining minimum costs by object of expenditure _____

3.2.8 — instructions for negotiation of variances from program average unit costs _____

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- 3.2.9 — details of components of unit costs in terms of objects of expenditure _____
- 3.2.10 — methods for computing costs of administrative and other activity elements where unit costs are not available _____
- 3.2.11 — instructions on budgeting for inventory fluctuations? _____

Review Procedures

Are there procedures for the review of responsibility centre budgets by higher level managers and their financial officers which include:

- 3.3.1 — verification of all computations _____
- 3.3.2 — comparison of unit costs to program averages for other responsibility centres _____
- 3.3.3 — verification of minimum resource requirements _____
- 3.3.4 — review of justification for variances from average and unit costs or for not complying with other guidelines _____
- 3.3.5 — assessment of impact on program objectives of changes in planned outputs from outputs given in budget guidelines _____
- 3.3.6 — assessment of planned changes in inventory levels _____
- 3.3.7 — comparison of aggregate program costs with program ceilings? _____

Anticipation of Lapses

- 3.4.1 Is there documented justification for the amounts of any excesses in the budgets of responsibility centres at the lowest level of delegation over the cash authority granted by appropriations? _____
- 3.4.2 Are there procedures to ensure that specific provision for anticipated lapses is made in successive levels of supervisory managers' budgets to ensure that the total of responsibility centre budgets does not exceed the amount of departmental appropriations? _____

Grants and Contributions

- 3.5.1 Are there procedures for budgeting for grants and contributions which take into account the requirements of Treasury Board Circular No. 1971-18? _____

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Capital Projects

- 3.6.1 Are there procedures for maintenance of a continuously updated record of all capital projects having Treasury Board or departmental planning approval whose cost is \$250,000 or more? _____

Are there procedures for use in preparing capital budgets which include:

- 3.6.2 — preparation of detailed cost estimates _____
- 3.6.3 — preparation of cost-benefit analyses _____
- 3.6.4 — consideration of alternatives and trade-offs _____
- 3.6.5 — assignment of priorities _____
- 3.6.6 — preparation of a time-phased plan for the project? _____

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4. BUDGETARY CONTROL

General

Are the following cash control systems documented:

- 4.1.1 — appropriation, allotment and sub-allotment control _____
- 4.1.2 — cash forecasting _____
- 4.1.3 — commitment control? _____
- 4.1.4 Is the system for controlling responsibility centre budgets documented? _____

Appropriation and Allotment Control

- 4.2.1 Are there procedures for maintenance of control accounts for Treasury Board prescribed allotments? _____
- 4.2.2 Are there procedures for maintenance of allotment control accounts during periods of interim supply or for special Governor General's warrants? _____
- 4.2.3 Does the appropriation and allotment control system prohibit over-expenditure of allotments until transfers of funds between allotments are approved by Treasury Board? _____
- 4.2.4 Are there procedures to ensure that payment for goods or services received on or before March 31st are charged to the proper fiscal year? _____

Sub-allotment Control

- 4.3.1 Are there procedures for the maintenance of sub-allotment control accounts where payment authority is delegated to officers on a decentralized basis? _____
- 4.3.2 Does the sub-allotment control system provide for recording disbursements chargeable to each sub-allotment either to the balance shown for undischarged commitments or to the free balance depending upon whether or not there was a prior commitment entry? _____
- 4.3.3 Are there procedures for reconciling allotment and sub-allotment control accounts maintained by financial officers with periodic financial reports? _____

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Cash Forecasting

4.4.1 Are there procedures for the preparation of cash forecasts? _____

Does the cash forecasting system require consideration of the impact of the following in determining cash requirements for the year:

4.4.2 — operational changes _____

4.4.3 — seasonal factors _____

4.4.4 — changes in outstanding commitments _____

4.4.5 — comparison of ratios and trends with previous experience _____

4.4.6 — changes in asset levels? _____

Commitment Control

4.5.1 Are the types of transactions that are required to be committed specified? _____

4.5.2 Are there procedures for the use of records of undischarged commitments at each responsibility centre? _____

Are there procedures for maintenance of a continuous record of commitments for:

4.5.3 — capital projects _____

4.5.4 — grants or contributions _____

4.5.5. — future year expenditures of all types? _____

Are there procedures for centralized reporting of commitments by responsibility centres:

4.5.6 — monthly throughout the year _____

4.5.7 — more frequently if required by the officers with payment authority? _____

4.5.8 Are there procedures for regular review of outstanding commitments to determine that they are still valid and identified with the correct fiscal year? _____

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Responsibility Centre Budgets

4.6.1 Does the budgetary control system provide for a comparison of actual and budgeted expenditures on a cost basis? _____

4.6.2 Does the budgetary control system provide for a comparison of actual and budgeted output? _____

4.6.3 Does the budgetary control system provide for reporting of variances directly to responsibility centre managers and to their superiors? _____

4.6.4 Does the budgetary control system specify the circumstances in which explanations of variances from budget are required? _____

Are there instructions requiring variances to be analysed and reported in terms of:

4.6.5 — changes in volume of output _____

4.6.6 — changes in quantity of resource input _____

4.6.7 — changes in prices of resource input? _____

4.6.8 Are there procedures for obtaining approval of budget changes? _____

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5. DEPARTMENTAL FINANCIAL REPORTING

General

- 5.1.1 Does the reporting system produce separate reports to meet the differing needs of responsibility centre managers and financial officers? _____

Does the reporting system provide for reporting of:

- 5.1.2 — man-year data _____

- 5.1.3 — other non-financial data? _____

Financial Management Reports

Do financial management reports for responsibility centres include details of:

- 5.2.1 — budgeted costs by activity elements on a periodic basis _____

- 5.2.2 — actual costs by activity elements _____

- 5.2.3 — budgeted outputs by activity elements on a periodic basis _____

- 5.2.4 — actual outputs by activity elements _____

- 5.2.5 — budgeted resource costs by reporting objects on a periodic basis _____

- 5.2.6 — actual resource costs by reporting object? _____

Does the reporting system roll up information by activity element costs for reports to:

- 5.2.7 — supervisory managers _____

- 5.2.8 — staff advisers responsible for activities, sub-activities, activity elements, etc.? _____

- 5.2.9 Are procedures outlined for responsibility centre managers on the method of obtaining explanations from financial staff for data shown in their financial reports? _____

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Financial Officers Reports

Does the reporting system require preparation of reports for financial officers with details by:

5.3.1 — appropriation

5.3.2 — allotment

5.3.3 — sub-allotment?

Do the reports include:

5.3.4 — disbursements

5.3.5 — undischarged commitments

5.3.6 — free balances?

Accounting Information

5.4.1 Does the reporting system restrict regular distribution of detailed transaction listings to financial staff only?

Content of Reports

5.5.1 Does the system of reporting require identification of information in financial reports which is not comparable with previous reports because of changes in accounting or reporting methods?

5.5.2 Are there instructions for preparing special reports on a demand basis?

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Use of Service Organizations

Where the design of the accounting system provides for the use of one or more service organizations are there procedures requiring a written agreement with each service organization which specifies:

- 6.4.1 — the services to be provided _____
- 6.4.2 — the responsibilities assumed by the service organization for accounting and internal control? _____

Does the agreement specify the rights of the department to obtain information on:

- 6.4.3 — the design and operation of the systems operated on its behalf by the service organization _____
- 6.4.4 — any amendments made to these systems _____
- 6.4.5 — the results of independent audits of these systems? _____
- 6.4.6 Does the department have documented procedures for the periodic review of adherence to and the adequacy of agreements with service organizations? _____

Timing of Accounting Entries

- 6.5.1 Is there a requirement for payment requisitions to be forwarded directly to Services offices of the Department of Supply and Services without delay after payment authority has been exercised? _____

- 6.5.2 Are there procedures for the periodic input of undischarged commitments to the accounting system? _____

Are there procedures to identify the types and amounts of accruals which are necessary to satisfy:

- 6.5.3 — needs for cost information _____
- 6.5.4 — needs for inventory control? _____

Do the procedures covering accrual accounting provide for:

- 6.5.5 — entry of invoices paid after closing date of cheque issue _____
- 6.5.6 — entry of invoices received but not paid for after closing date of cheque issue _____

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6. ACCOUNTING FOR EXPENDITURES

General

6.1.1 Is the principal system used in the department for accounting for expenditures documented? _____

6.1.2 Are there procedures requiring reconciliation of this principal accounting system to the central accounts of Canada? _____

Do the principal accounting system or any subsidiary systems controlled by it provide all financial information in the following reports:

6.1.3 — financial reports _____

6.1.4 — other management information reports? _____

6.1.5 Is all non-financial data on financial reports controlled by those responsible for producing the reports to ensure its accuracy and comparability with financial data? _____

Integration of Subsidiary Accounting Systems

Are there procedures for the input and reconciliation of financial information in the following subsidiary systems to control accounts in the principal accounting system:

6.2.1 — inventories of materials and supplies _____

6.2.2 — inventories of work in progress _____

6.2.3 — inventories of equipment _____

6.2.4 — other fixed assets _____

6.2.5 — payroll distribution _____

6.2.6 — cost distribution _____

6.2.7 — other? (provide details) _____

Use of Accounting and Reporting Services of the Department of Supply and Services

6.3.1 Are the accounting and reporting systems of the Department of Supply and Services utilized to obtain detailed accounting information for input to the principal accounting system as a by-product of the recording of cash disbursement transactions? _____

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- 6.5.7 — entry of estimates for goods or services received but for which invoices have not been received _____
- 6.5.8 — entry of revenue earned but not received by the end of the accounting period _____
- 6.5.9 — other entries to adjust costs or revenues for the period? _____

Accounting for Inventories of Materials and Supplies, Equipment and Other Fixed Assets

Are there guidelines which identify when independent control of inventories is required:

- 6.6.1 — by means of detailed records _____
- 6.6.2 — by means of control accounts? _____
- 6.6.3 Are the procedures for maintaining detailed inventory records and control accounts documented? _____
- 6.6.4 Are there procedures for physical stocktaking and comparing the count to the book record? _____

Accounting Controls

Does the documentation of the accounting system identify the following types of accounting controls wherever they occur:

- 6.7.1 — numerical sequence controls _____
- 6.7.2 — control totals _____
- 6.7.3 — batch controls _____
- 6.7.4 — repetitive checking _____
- 6.7.5 — reasonability controls _____
- 6.7.6 — statistical sampling _____
- 6.7.7 — other controls? (specify) _____
- 6.7.8 Are there procedures that the approval of a designated officer be obtained for any changes in the application of accounting controls? _____

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6.7.9 Are there procedures whereby all employees provide evidence that they have exercised the accounting controls for which they are responsible by signing or initialling accounting documents? _____

Coding System

6.8.1 Are there instructions explaining the use of the various fields of the coding block? _____

6.8.2 Does the coding system include collator codes? _____

6.8.3 Are there procedures for the circulation of codes and coding instructions to all responsibility centres and financial staff? _____

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7. FINANCIAL CONTROL OF EXPENDITURES

General

- 7.1.1 Is the basis used for the delegation of financial authorities under the Financial Administration Act and the responsibilities involved explained in writing to managers who have delegated authority? _____

Principles for Delegation

- 7.2.1 Is spending authority delegated to supervisory and responsibility centre managers only in respect of their own budgets and those of their subordinates? _____
- 7.2.2 When spending authority is granted to officers other than supervisory and responsibility centre managers does the delegation document make clear that these officers are exercising this authority on behalf of managers with budgetary responsibility? _____
- 7.2.3 Is payment authority delegated only to financial or other independent officers? _____
- 7.2.4 Is authority to give commitment certificates granted to either managers with spending authority or officers with payment authority and not to both in respect to any specific allotment? _____

Are there requirements that:

- 7.2.5 — spending authority and payment authority not be exercised by the same person for a particular payment _____
- 7.2.6 — payment authority not be exercised until any certificate required under Section 27 of the Act has been provided _____
- 7.2.7 — authorities be delegated to organizational positions and not to individuals _____
- 7.2.8 — authorities not be exercised by persons assuming operational responsibilities of a superior unless they are designated in writing by appropriate persons to perform the duties of the position on a temporary basis? _____
- 7.2.9 Is payment authority delegated only to positions classified at or above the FI-2 level or its equivalent? _____

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- 7.2.10 Are there instructions that no person is to exercise either payment or spending authority with respect to a payment from which he can personally benefit?

Documentation and Communication of Delegated Authorities

- 7.3.1 Is the formal delegation document in a form that is convenient for distribution to and use by all persons who must give recognition to financial authorities?
- 7.3.2 Are specimen signature cards distributed to all personnel who have to recognize a financial signing authority both in the department and in cheque issuing offices of the Department of Supply and Services?
- 7.3.3 Are there procedures for the annual review of all delegated signing authorities and specimen signature cards?

Regulations and Directives

Are there procedures to be followed by officers with spending authority and payment authority which:

- 7.4.1 — comply with all requirements of the Account Verification and Payment Requisition Regulations
- 7.4.2 — detail the respective responsibilities of the officers for ensuring compliance with the Account Verification and Payment Requisition Regulations?
- 7.4.3 Are there procedures for the operation of departmental bank accounts which comply with Part II of the Cheque Issue Regulations?
- 7.4.4 Are there procedures for the repayment of money received which comply with the Repayment of Receipts Regulations?
- 7.4.5 Are there procedures covering assignment of debts which comply with the Assigned Debt and Power of Attorney Payment Regulations?

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8. ACCOUNTING AND CONTROL OF REVENUE AND ACCOUNTS RECEIVABLE

General

- 8.1.1 Is the system used for accounting and control of revenue, accounts receivable, loans and advances documented? _____

Claiming Revenue

Are there procedures which require:

- 8.2.1 — maintenance of a schedule of rates and discounts from such rates which are available to all personnel responsible for revenue collection or billing _____
- 8.2.2 — collection of revenue at or prior to the provision of goods or services wherever possible _____
- 8.2.3 — issue of an account receivable billing as soon as administratively feasible after the provision of goods or services _____
- 8.2.4 — issue of progress billings where services are rendered on a continuing basis _____
- 8.2.5 — verification that rates used on billings are correct _____
- 8.2.6 — verification that billings are issued for all goods or services provided _____
- 8.2.7 — regular review of the rate structure? _____

Accounts Receivable

Are there procedures for accounting for receivables which cover:

- 8.3.1 — recording of all billings in departmental subsidiary records and control accounts _____
- 8.3.2 — listing and balancing of the subsidiary ledger to the control account at least monthly? _____

Are there procedures for collecting receivables which include:

- 8.3.3 — action to collect all claims, including amounts due from other departments _____

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- 8.3.4 — identification of the extent of collection action considered feasible in particular circumstances _____
- 8.3.5 — examination of overdue accounts by a senior official _____
- 8.3.6 — action to recommend deletion of uncollectable accounts to the deputy head for approval by the Minister? _____

Receipt and Deposit of Revenues and Receipts

- 8.4.1 Are there procedures for the receipt and deposit of money which comply with the Receipt and Deposit of Public Money Regulations? _____
- 8.4.2 Are there procedures for the operation of trust accounts which comply with the Revenue Trust Account Regulations? _____

Loans and Advances

- 8.5.1 Are there procedures for reconciling total outstanding loans and advances in departmental records with central account balances for loans and advances? _____
- 8.5.2 Are there procedures for claiming and collecting installment payments and interest when due? _____

Deletion of Debts Regulations

- 8.6.1 Are there procedures for deleting debts which comply with the Deletion of Debts Regulations? _____

Public Officers Guarantee Regulations

- 8.7.1 Are there procedures which comply with the Public Officers Guarantee Regulations for reporting and recovering losses arising out of defalcations by government employees? _____

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9. FINANCIAL AUDIT AND EVALUATION

General

Is the system used for financial audit documented to identify:

- 9.1.1 — purpose _____
- 9.1.2 — organization _____
- 9.1.3 — methods? _____

Scope and Frequency of Audit

Are there procedures for the annual review of the following aspects of financial administration:

- 9.2.1 — management of the financial function _____
- 9.2.2 — classification of accounts _____
- 9.2.3 — budget preparation _____
- 9.2.4 — budgetary control _____
- 9.2.5 — financial reporting _____
- 9.2.6 — accounting for expenditures _____
- 9.2.7 — financial control of expenditures _____
- 9.2.8 — accounting and control of revenue and accounts receivable? _____
- 9.2.9 Are there procedures for the review of all financial operations of each responsibility centre at least once every three years? _____

Are there procedures which require that:

- 9.2.10 — an annual schedule of audits be prepared _____
- 9.2.11 — an annual report be submitted to the deputy head indicating actual coverage and summarizing results achieved? _____

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Audit Techniques

Do procedures require that audit programs identify for each audit procedure:

- 9.3.1 — the purpose _____
- 9.3.2 — basis of sample selection _____
- 9.3.3 — size of sample selected _____
- 9.3.4 — name of the auditor responsible _____
- 9.3.5 — amount of time taken _____
- 9.3.6 — supporting working papers? _____

Do audit working papers contain evidence of the use of systems-based auditing techniques such as:

- 9.3.7 — flow charts or other forms of systems descriptions _____
- 9.3.8 — volume statistics on financial systems _____
- 9.3.9 — internal control evaluation questionnaires _____
- 9.3.10 — efficiency evaluation questionnaires _____
- 9.3.11 — sample copies of financial forms _____
- 9.3.12 — audit programs including both procedures to investigate apparent inefficiencies and control weaknesses and procedures to provide assurance that the rest of the system is operating effectively? _____

Responsibility for Audit

Does the system for financial audit include procedures for assignment of responsibility which require that:

- 9.4.1 — the head of the financial audit group be responsible to a senior officer in the department or agency other than the senior financial officer _____
- 9.4.2 — the senior officer to whom the head of the audit group reports be chairman of an audit committee composed of other senior officers _____

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- 9.4.3 — the financial audit group be a part of the operational audit or management review group if one exists _____
- 9.4.4 — financial auditors are independent of the managers directly responsible for activities subject to audit _____
- 9.4.5 — financial auditors are exclusively used as auditors? _____

Organization for Audit

Is financial audit organized so that:

- 9.5.1 — there is a nucleus of professionally qualified financial auditors _____
- 9.5.2 — audit staff are rotated on recurring audits _____
- 9.5.3 — supervisors review all audit reports and working papers and give general supervision to auditors _____
- 9.5.4 — services of the Audit Services Bureau of the Department of Supply and Services are utilized wherever internal audit groups do not exist or do not have the manpower to fulfil audit requirements? _____

